



# Crowdfunding's Potential in The Caribbean

## A Preliminary Assessment



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## Foreword

Crowdfunding and other forms of online alternative finance are blossoming around the world and in the Americas. According to our latest report published in conjunction with the Chicago Booth School of Business, the alternative finance market in the Americas reached \$35.2 billion in 2016, out of which \$324 million was generated from Latin America and the Caribbean region (LAC). Nevertheless, only small percentage of the total LAC market volume was actually derived from Caribbean countries, mainly consists of reward- and donation-based non-investment crowdfunding activities. Therefore, there is an urgent need to understand how crowdfunding can take root in Caribbean countries and what are the market, regulatory and technological drivers that can propel the growth of crowdfunding in this promising region.

Following their trailblazing work on *Crowdfunding's Potential for the Developing World* (infoDev,2013), the authors of this report carried out empirical research to assess the potential of crowdfunding in the Caribbean. It focuses on the prerequisite 'building blocks' for a thriving crowdfunding ecosystem – user capacity, laws and regulations as well as technology. It also put forward an array of actionable recommendations for key stakeholders, both public and private, to foster financial innovation, empower entrepreneurs and scale crowdfunding development in the Caribbean.

This assessment is comprehensive, lucid and timely. In essence, it provides a practical 'road map' for Caribbean nations to not only unleash the power of crowdfunding, but also to effectively harness it for the benefits of businesses, communities and the wider economy. To develop crowdfunding and make it work for individual countries, a deeper understanding of the evolving local market dynamics, the need of funders and fundraisers, the intricacy of regulatory environments, the robustness of legal system and aspects of technical capability is required. Therefore, as this report advocates, a holistic and 'ecosystem-based' approach would be best placed to unlock the potential of crowdfunding in the Caribbean, whilst ensure the development is sustainable and appropriately regulated.

The strength of financial innovation such as crowdfunding comes from its dynamism, diversity and adoptability to local context. There is simply no 'one-size-fits-call' approach that will magically spur the growth of crowdfunding in every country. The proposed approach laid out in this report offers specific recommendations for the unique characteristics of markets in the Caribbean. In the fullness of time, the lessons learned from the implementation of those strategies in the Caribbean will offer invaluable insights not only for the region but perhaps for many other jurisdictions around the world.

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*Crowdfunding's Potential in the Caribbean: A Preliminary Assessment*, was commissioned by *infoDev*, a global technology and innovation program at the World Bank Group. This is the second in the series of studies published by *infoDev*, the first was *Crowdfunding's Potential for the Developing World*, which was published in 2013. It is the first study in the Caribbean which focuses on developing crowdfunding in the region.

The study was conducted under the supervision of Karlene Francis, Operations Officer, Innovation and Entrepreneurship (I&E) Unit, Trade and Competitiveness Global Practice, The World Bank Group.

The main text was prepared by Jason Best and Sherwood Neiss of Crowdfund Capital Advisors and Samuel Raymond, *infoDev* Consultant. Nicola Vesco, Online Communications Officer, I&E Unit, World Bank Group was responsible for layout and Colin Blackman (Camford Associates) was responsible for editing. Allied Crowds provided data which was used in the report. Special thanks go to Bryan Zhang, Co-Founder and Interim Executive Director, Cambridge Centre for Alternative Finance, University of Cambridge Judge Business School, for his valuable contribution to the foreword to this report.

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## Abbreviations

AML	Anti-Money Laundering
CARICOM	Caribbean Community
CCIC	Caribbean Climate Change Innovation Center
CDB	Caribbean Development Bank
CEDA	Caribbean Export Development Agency
CIRI	Caribbean Industrial Research Institute
ECSM	Eastern Caribbean Securities Market
ECSRC	Eastern Caribbean Securities Regulatory Commission
EPIC	<i>infoDev's</i> Entrepreneurship Program for Innovation in the Caribbean
FICO score	A measure of consumer credit risk
IADB	Inter-American Development Bank
IPO	Initial public offering
IRC	Incubator and resource center
JAMPRO	The Jamaica Promotions Corporation
JBDC	Jamaica Business Development Center
KYC	Know Your Customer
LAC	Latin America and Caribbean
MIDA	Micro Investment Development Agency
MSME	Micro, small and medium enterprise
OECS	Organisation of Eastern Caribbean States
P2B	Peer-to-business crowdfunding
P2P	Peer-to-peer crowdfunding
SME	Small and medium enterprise
SRC	Jamaican Scientific Research Council
TIC	Technical Innovation Center
TTSEC	Trinidad and Tobago Securities and Exchange Commission
UWI	University of the West Indies
VC	Venture capital
YEDCI	Youth Employment in Digital and Creative Industries project

All dollar amounts are U.S. dollars unless otherwise indicated.

## Executive Summary

Among the multitude of barriers to growing businesses, access to finance is a principal challenge faced by Caribbean enterprises. Data from a 2014 firm-level survey by Compete Caribbean show that difficulty in obtaining finance is a leading impediment to doing business, with 30 percent of firms in the region mentioning it as a moderate obstacle and 26 percent citing it as a major or severe obstacle. Few financing options are available for many businesses in the Caribbean, whether they be start-ups or early to mid-stage enterprises. Commercial banking loans are difficult to secure because of the cash flow and collateral requirements of banks. Moreover, the informal nature of many Caribbean companies makes connecting capital supply and demand difficult for commercial banks.

*infoDev's* Entrepreneurship Program for Innovation in the Caribbean (EPIC) Access to Finance component aims to develop an innovative access to finance program for growth-oriented Caribbean entrepreneurs. The focus is on building the pipeline of investment-ready enterprises through training and mentoring, as well as strengthening investors' overall capacity to engage in innovative financing mechanisms, such as angel investing and crowdfunding.

Over the past few years, there has been experimental use of crowdfunding by existing small and medium enterprises (SMEs) and start-ups in the Caribbean. Crowdfunding is an online form of community-based, collective fundraising. It leverages the power of the Internet and social media to enable business owners, project leaders, and individuals to raise money from personal and professional networks, as well as geographical and affinity groups. This capital may be in the form of a contribution, pre-purchase, equity investment, or debt instrument, which offers potential financing solutions across all sectors and development stages of Caribbean firms, from traditional SMEs to technology start-ups. Crowdfunding leverages Internet technology and offers a new path to capital formation that may mitigate some challenges, including geographic isolation and the limited size of local addressable customer and capital markets.

*Crowdfunding's Potential in the Caribbean: A Preliminary Assessment*, was commissioned by *infoDev*, a global technology and innovation program at the World Bank Group. This is the second in a series of studies published by *infoDev* on the topic, the first being *Crowdfunding's Potential for the Developing World* (*infoDev* 2013). Since it is the first study to focus on developing crowdfunding in the Caribbean, it provides a preliminary assessment with the objective of disseminating information that can be utilized by the many different actors in the Caribbean entrepreneurial ecosystem. The intended audience for this introductory paper includes key Caribbean stakeholders concerned with access to finance, specifically: the private sector, the business enabler community, governments and regulatory bodies, and international financial institutions.

This report's scope is a preliminary assessment of the potential viability of crowdfunding in the Caribbean, which serves as an initial step for further research. It examines three essential elements, which are the building blocks of a well-functioning crowdfunding ecosystem:

1. User capacity: The proclivity and ability of both the supply-side (investors, lenders, and contributors) and demand-side actors (consumers, commercial entities, or projects) to utilize new financing models;
2. Laws and regulations: The proposed, existing, or necessary legislation that specifically governs crowdfunding; and,
3. Technology: The status of technologies necessary for crowdfunding to function organically within the economy.

For this assessment, the methodology was to conduct extensive in-person interviews with over 70 stakeholders from the public and private sector in Saint Lucia, Trinidad and Tobago, Barbados, and Jamaica. These countries were selected to provide input from nations with varying populations, geographic locations (including The Organization of Eastern Caribbean States) and economic development. The findings from the survey revealed that, so far, there have been only experimental levels of crowdfunding in the Caribbean. This experimentation has occurred primarily on U.S.-based crowdfunding platforms (for example, Kickstarter, Indiegogo, and GoFundMe). The growing utilization of the Internet and social media facilitated by existing networks for remittance capital flows has resulted in the emergence of a handful of nascent Caribbean platforms. However, the Caribbean culture of being risk adverse and low in trust for online financial systems coupled with the low awareness of crowdfunding in the region are barriers to widespread adoption.

The development and utilization of crowdfunding in the Caribbean will require overcoming technological challenges, including lack of online payment systems and electronic banking. The nascent Caribbean platforms face significant obstacles in attempting to work around financial technology infrastructure gaps. While the countries in the study share common regulatory concepts, standardized region-wide regulatory frameworks for alternative financial products do not currently exist. Also in the target countries both the number of actual financial frauds and the general fear of financial fraud is high, which complicates the deployment of new financial instruments. These elements create a challenging environment for crowdfunding to emerge because balanced regulation and a regulatory environment that engenders trust in electronic transactions are fundamental requirements for crowdfunding.

Another challenge is whether, when, and how to engage the Caribbean diaspora via crowdfunding for projects in the region. As has been discussed in a recent World Bank report, *Investing Back Home: The Potential Economic Role of the Caribbean Diaspora* (World Bank, 2016),

the diaspora is of significant size in proportion to the total population of the region, and is currently engaged in sending remittances back to the Caribbean at levels that add significantly to the GDP of a number of countries. This study presents recommendations for developing the framework for crowdfunding in the Caribbean that can benefit both existing SMEs as well as start-ups, based on the essential elements: Building user capacity; Technology development; and Legal and regulatory actions.

## Building User Capacity

To build the capability of users, entrepreneurs need technical support to help them better utilize existing crowdfunding platforms. In this regard, the World Bank Group conducted the first Crowdfunding Massive Online Course for the Caribbean (CMCE)<sup>1</sup> which ended in November 2016. The CMCE received 523 applications, from which 328 were selected, and 244 actively participated in the eight-week course, which included seven modules on the fundamentals of crowdfunding for Caribbean entrepreneurs. The course started with basic concepts of crowdfunding. Each learning module provided the know-how, tools and templates, and built the peer support system for participants to develop and launch their own crowdfunding campaign. The centerpiece of the CMCE was a capstone project, which participants submitted at the end of the course. The World Bank Group will also facilitate the provision of direct coaching to support entrepreneurs with the highest ranked capstone projects to launch their crowdfunding campaigns during 2017.

### Free Online Course on Crowdfunding in the Caribbean

The image is a screenshot of a Facebook post from the page 'Crowdfunding for Caribbean Entrepreneurs' (@CMCEMOOC). The post is dated 18 August and features a woman with glasses and a colorful patterned top. The main text of the post reads: 'Want to test the market for your business idea? Sign up for the World Bank's free online course to design your own crowdfunding campaign. Entrepreneurs with the best plans will be matched with coaches to help bring their campaigns to life.' Below this is a large image with the text 'Free Course: Crowdfunding for Caribbean Entrepreneurs' and 'Crowdfunding for Caribbean Entrepreneurs: Free Online Course'. The post also includes the text 'Applications are open through Aug. 21 for Crowdfunding for Caribbean Entrepreneurs, an exciting and innovative free training course that combines...' and the website 'WORLD BANK.ORG'. The post has 808 likes and is set to 'Chronological'. On the right side of the screenshot, there is a 'Sign Up' button and a sidebar with 'Education' information, a search bar, and 'About' details including 'Ask for Crowdfunding for Caribbean Entrepreneurs's address', 'Ask for Crowdfunding for Caribbean Entrepreneurs's phone', and 'Ask for Crowdfunding for Caribbean Entrepreneurs's hours'. There are also 'PHOTOS' in the sidebar.

With regard to diaspora engagement, the immediate recommendation is to add crowdfunding education and awareness-building opportunities to existing diaspora engagement efforts. Over time, once there have been sufficient local successes, pilot programs can be developed to extend successful campaigns to the diaspora.

The recommended immediate and medium-term actions to inspire and enable early adopters to experiment with crowdfunding are outlined in the table below:

CAPACITY BUILDING RECOMMENDATIONS	
IMMEDIATE ACTIONS	MEDIUM-TERM ACTIONS
Coaching support to launch highest ranked CMCE capstone projects crowdfunding campaigns.	Support new Caribbean grant-making facilities to develop and implement matching grant programs.
Support existing Caribbean grant-making facilities to develop and implement a preparatory technical assistance window for companies that wish to launch crowdfunding campaigns.	Support the development of educational materials for investors.
Support the preparation, listing, due diligence and seeding of Caribbean deals on existing international securities platforms.	Develop pilot programs and surveys to test diaspora crowdfunding educational and engagement strategies.

### Technology Development

The use of the Internet and social media is relatively high in the Caribbean. Internet World Stats reports an internet penetration of 43.7 percent and Facebook accounts for 26 percent of the total population, as at June 30, 2016.<sup>2</sup> Use of payment systems, however, is minimal and must be advanced to promote crowdfunding in the Caribbean. The following actions are recommended:

TECHNOLOGY DEVELOPMENT RECOMMENDATIONS	
Regulatory and Payment Systems	Financial Return Crowdfunding Platforms
Strengthen collaboration among Caribbean governments, namely central banking authorities, to formulate and implement strategies for payments system modernization.	Development organizations or governments should <u>NOT</u> start a crowdfunding platform.

TECHNOLOGY DEVELOPMENT RECOMMENDATIONS	
Regulatory and Payment Systems	Financial Return Crowdfunding Platforms
Given the implementation of a supportive regulatory environment for nonbank financial intermediaries, stakeholders could leverage entrepreneurship-enabling programs to channel technical and financial resources to Caribbean financial technology start-ups.	Development organizations and other stakeholders should provide technical and network support to improve efficacy of currently embryonic Caribbean-based crowdfunding platforms.
Support the preparation, listing, and due diligence of Caribbean deals on existing international securities platforms.	Develop a pilot program to expose Caribbean start-ups to diaspora members using existing international crowdfunding platforms, such as Homestrings, AngelList, and OurCrowd.

**Legal and Regulatory Actions**

Reward crowdfunding is greatly impacted by existing commerce law and consumer protection regimes. Recently in the United States, legal precedent has developed for suing the proprietors of crowdfunding campaigns that misuse funds or defraud contributors. Measuring the existence of such precedent constitutes a legal opinion on the current status and likelihood of criminal and civil recourse for crowdfunding malfeasance.

Given that securities crowdfunding in the Caribbean is embryonic, regulators should define regulatory strategies to serve as a starting point for the equity and debt crowdfunding industry. As platforms launch and gain initial traction, Caribbean regulators may consider a plan to regulate in a way that is data intensive and prescriptively light touch.

Further, because individual Caribbean countries lack economies of scale, regulatory efforts should be coordinated across Caribbean Community (CARICOM) countries, as well as with regional counterparts in North and Latin America. International coordination of regulatory regimes is a largely unexplored concept to date and, as such, alignment by Caribbean regulators with their counterparts in other countries would represent an opportunity to align the region to international best practices which are suited for small island developing states.

In defining securities regulation in the Caribbean, recommended actions are presented in the figure below:

Caribbean policy makers, regulators, relevant development organizations and entrepreneurship leaders utilize global trends and best practice in the regulation and monitoring of debt and equity crowdfunding. This should include exploration of a regional "regulatory sandbox" initiative to spur financial technology deployment.

Regulators and investor protection groups create investor education awareness programs and risk mitigation strategies, including fraud detection. Creation and support of a Caribbean Crowdfunding / Fintech Association could be a part of this strategy.

Crowdfunding Platforms and key stakeholders establish data standards, frameworks for solicitation, presentation of materials, money transfer, and escrow to enhance transparency, which may drive additional local/regional utilization. Over time, these efforts may support participation of the Caribbean diaspora.

Legal and accounting stakeholders promote the utilization of incorporation, disclosures, and generally accepted accounting practices. These types of standardization support stability in public markets and may also do so in nascent crowdfunding markets.

Development institutions and Caribbean stakeholders increase ongoing efforts to formulate and implement strategies for payment system modernization.

## Conclusion

The potential exists for the Caribbean to enable a conducive environment for the formation and growth of crowdfunding, thereby bolstering early stage capital markets and contributing to the potential further development of entrepreneurship, innovation, economic growth and employment. In some ways, crowdfunding may be viewed as a formalization of "friends and family finance". To the extent that this occurs, there is the possibility that it can also support further development of the finance sector in the region by promoting financial inclusion and investor protection and education.

This preliminary assessment highlights both threats and opportunities for the utilization of crowdfunding in the Caribbean. At the macro level, low utilization of electronic payments and banking services, limited access to a small number of crowdfunding platforms, and a lack of familiarity and trust of online fundraising systems by people living in the Caribbean and diaspora pose significant roadblocks to the development of crowdfunding. While outside the scope of this study, it is also important to note that some additional structural factors exist that may challenge the development of crowdfunding, including: the overall legal and regulatory framework and its ability to meet the needs of innovative forms of finance; the capacity of regulators and ecosystem stakeholders to supervise these new tools effectively; the capacity of law enforcement agencies to take action; and access to effective justice institutions. At the same time, governmental interest in regulatory reform, increasing web utilization, experimentation by local crowdfunding platforms, and the formation of an embryonic entrepreneurial ecosystem are the fundamental building blocks of the crowdfunding market in the Caribbean.

The report provides regulators and policy makers with a roadmap of potential near-term and medium-term actions to create the next steps in developing the crowdfunding ecosystem in the Caribbean. These steps involve conversations between stakeholders, and the development of policies, programs and regulation to improve the financial infrastructure in the region to better enable crowdfunding. Following this roadmap will require leadership, commitment, and action at the regional, national, and local levels to bring the changes necessary for crowdfunding to thrive. As these national and regional efforts gain traction and produce success stories, there may be opportunities to expand active communication with the broader Caribbean diaspora about crowdfunding as a way to both “give back” and to potentially realize financial returns. Investor education will be important in highlighting the risks and potential rewards of these opportunities. Pilot programs to offer investment opportunities to selected members of the diaspora could provide case studies and valuable lessons for stakeholders.

These practical steps can help support existing programs to create a viable environment for crowdfunding to develop in the Caribbean to support start-ups and existing SMEs. Development organizations, governments, regulatory bodies, and entrepreneurship enablers all have a role to play in creating better access to finance for entrepreneurs in the Caribbean.

## 1. Introduction

In just a few short years, crowdfunding – an online form of fundraising from a diverse range of small and large contributors, investors, or lenders – has emerged as a novel fundraising mechanism that is beginning to demonstrate early impact on capital formation in countries in which it has been adopted. Combining the connectivity of the Internet, the transparency and efficiency afforded by real-time data, and the multifaceted interests of the crowd, crowdfunding creates the opportunity for access to capital for entrepreneurs and SMEs that typically face difficulty in raising finance from traditional sources. The global financial crisis in 2008-12 resulted in tighter restrictions on bank lending, which exacerbated the funding gap for innovative start-ups. This tightening of capital availability, combined with the utilization of the social Web, also kickstarted the crowdfunding industry globally.

### Overview of Crowdfunding

Crowdfunding is the practice of funding a project or venture by raising monetary contributions from a large number of people, typically via the Internet. It is important to note that crowdfunding has been successfully employed in other contexts for both start-ups/entrepreneurs as well as existing SMEs and “mid-stage” businesses. Often, because of press coverage, crowdfunding is categorized as a tool for tech start-ups. This is not the case. It has been used successfully by firms of varying size in many countries (for example, the United Kingdom, Malaysia, and New Zealand). The mechanism of crowdfunding is comprised of three basic types of actors:

1. The venture or project seeking funds;
2. The individuals, institutions, or groups who contribute monetarily to the venture or project; and,
3. The intermediating technology systems that connect the supply and demand-side actors.

These actors in the crowdfunding ecosystem are governed to differing degrees, based upon the characteristics of the transaction, whether it provides a financial return or is a nonfinancial return transaction (that is, reward, debt, or equity) and by the enabling legal and regulatory regime. These newly emerged crowdfunding business models incorporate various aspects of both online marketplace systems, venture investing, and banking systems. The wide spectrum of characteristics exhibited across these instruments pose a unique analytical challenge, requiring the development of a new framework that uses analytical tools for online marketplace systems and those for venture investing.

Crowdfunding's growth in the Americas, Europe, and Asia can be attributed to the presence of essential technological elements, including crowdfunding platforms and social media, the participation of users on supply and demand sides, and a supportive regulatory environment, especially in the case of crowdfunding of debt and equity. While crowdfunding began in larger economies (for example, the United Kingdom and the United States) mid-sized and smaller economies are now also enabling these new fundraising tools to be utilized (for example, Malaysia, Thailand, New Zealand, and the Netherlands). There is a common misconception that, in order for a business to succeed in raising money via crowdfunding, the country must be large to provide a significant pool of investors. However, in studies in the United States, the average company raising money through crowdfunding takes on less than 300 investors per round. Moreover, anecdotal information indicates that the majority of those investors are first or second degree connections to the founders or employees of the company. Especially with a new asset class, engaging with new investors and companies, individuals are much more likely to invest in people they know or are connected to in some way.

A multitude of crowdfunding models now exist that allow for various funding instruments of projects, products, or firms. **Appendix A** provides details about existing crowdfunding models, the mechanisms of their operation, and the requisite regulatory foundation on which each type operates. Basically, crowdfunding may be classified into two broad categories:

1. Nonfinancial return crowdfunding, for example, donation of capital to a cause or charity, and rewards-based crowdfunding in which a contributor "prepurchases" an item in a crowdfunding campaign. In these types of transactions, there is no expectation of financial gain from the transaction.
2. Financial return crowdfunding, for example, peer-to-peer (P2P) lending, peer-to-business lending (P2B) lending, balance sheet lending, equity crowdfunding, invoice trading, and real estate crowdfunding. These transactions are based on an expected financial return on an investment in either a debt or equity security.

Caribbean stakeholders should select the best model to increase access to finance for their constituencies.

## **Crowdfunding to support private sector development**

The Caribbean region has been trapped for years in a spiral of slow growth, high unemployment, limited fiscal space, and growing social problems, which were intensified by a number of external shocks since 2008 (World Bank 2014). Economic growth in the Caribbean countries has been losing ground continuously compared with the Latin American region and other small economies in the world. The International Monetary Fund (IMF) estimates that Caribbean GDP grew by an

average of just 1.1 percent in 2014 and would expand by 1.7 percent in 2015.<sup>3</sup> Throughout the region, structural fiscal problems persist in the form of budget deficits, high public debt, and rising interest rates. In 2012, the average debt-to-GDP ratio of Caribbean economies was 1.7 times the global average for small economies.

Building the growth engines of the region will depend on its capacity to enable and strengthen the private sector. As the region's economies have sought to recover from external shocks, it is broadly recognized that private sector development has gained added importance to the region. Currently the region has concentrated, undiversified industrial sectors, and lacks economies of scale. The services sector, specifically business services and tourism, is the major contributor to economic growth and job creation in the region. The tourism and travel industry, in particular, contributes significant proportions of GDP in many Caribbean economies (Ruprah et al 2014). Meanwhile, the region's private sector is dominated by smaller, older, and less open firms, which are locally-owned, operate in small and medium-sized localities, and lack strong linkages to international markets (Ruprah et al 2014). As a result, revenue and employment growth of many of these firms lag behind those of their peers in other small economies.

Innovative entrepreneurs are key drivers that spur growth and competitiveness by creating jobs and delivering new products, services, and business models to underserved markets (Lederman et al 2014). Entrepreneurial start-up activity in the Caribbean is modest when compared to similar island economies. Existing Caribbean enterprises have shown a significant innovation disadvantage and growth plight. According to the Global Entrepreneurship Monitor, in all of the Caribbean countries, less than 40 percent of enterprises have products or services that are considered innovative (Varela et al 2014). Compounding the innovation gap is the small pool of growth-oriented enterprises in the region.<sup>4</sup> Compared to other regions, Caribbean enterprises have weak growth prospects: in 2014, less than 1.6 percent of Caribbean enterprises had created more than 20 jobs in the previous three years, and less than 20 percent were expected to grow to have more than 20 employees in the next five years (Amoros and Bosma 2014).

Among the multitude of barriers to growing businesses, access to finance is a principal challenge faced by Caribbean enterprises. Data from a 2014 firm-level survey by Compete Caribbean show that difficulty in obtaining finance is a leading impediment to doing business, with 30 percent of firms in the region mentioning it as a moderate obstacle and 26 percent citing it as a major or severe obstacle.<sup>5</sup> Few financing options are available for start-ups and early-stage enterprises in the Caribbean. Commercial banking loans are difficult to secure because of the cash flow and collateral requirements of banks. Moreover, the informal nature of many Caribbean companies makes connecting capital supply and demand difficult for commercial banks.

Alternative finance, that is, from external sources other than banks or stock and bond markets (Allen, Carletti, Qian and Valenzuela 2012), generally over internet platforms, provides a solution to the SME's challenge. Lenders range from individual investors to nonbank lending companies. Alternative finance has emerged outside of the traditional finance system, such as regulated banks and capital markets, as a means for consumers and companies to raise capital. Alternative finance differs from traditional banking or capital market finance by utilizing technology-enabled platforms to connect fundraisers directly with funders, in turn, reducing transactional costs and improving market efficiency. Examples of alternative financing activities through "online marketplaces" (also known as crowdfunding) fall into two broad categories: Nonfinancial Return Models, for example, donation and rewards-based crowdfunding, and Financial Return Models, which include equity-based, securities-based, and loan-based crowdfunding. Loan-based crowdfunding can include consumer lending and business lending, balance sheet lending, invoice trading, and third party payment platforms. Additionally, real estate crowdfunding exists in both securities-based and loan-based versions.

These alternative finance models, including crowdfunding, emerged in response to the 2008 global financial crisis and evolved from nonfinancial return crowdfunding. Since that time, alternative finance markets have grown rapidly. In the Americas, the alternative finance market trebled in size from \$11.68 billion in 2014 to \$34.9 billion in 2016. The United States, with years of regulatory guidance on the alternative finance and massive institutional investment in the sector, especially peer-to-peer lending, accounted for \$34.5 billion of total market volume in the Americas in 2016. (Ziegler et al 2017). For 2016, The Cambridge University Centre for Alternative Finance estimated a total of \$110.5 billion in alternative finance volume in Latin America and the Caribbean, of which 0.012 percent was derived from Caribbean countries.

The global markets for crowdfunding in some developing countries is rapidly growing, the United Kingdom's alternative finance market reached £1.74 billion (about \$2.16 billion) in 2014, according to the University of Cambridge and Nesta (Zhang et al 2016). In Asia, excluding China, the alternative finance market in 2015 totaled \$1.12 billion, a 312 percent year-on-year increase. The peer-to-peer lending market in China is difficult to verify but was estimated to be about \$101.7 billion in 2015, which would make it the largest in the world (Zhang, 2016).

Crowdfunding's early growth in countries such as the United Kingdom and New Zealand can be attributed to the presence of essential technological elements, including crowdfunding platforms and social media, the participation of users on both supply and demand sides, and supportive regulatory environments, especially in the case of crowdfunding of debt and equity. Experience shows that these three elements – technology, user participation, and regulation – are fundamental for a well-functioning crowdfunding ecosystem, and are having the greatest impact

in developed countries such as the United States, the United Kingdom, and Australia. Nevertheless, the potential exists for developing countries to enable conducive environments for the formation and growth of crowdfunding models, thereby bolstering early stage capital markets and contributing to the further development of entrepreneurship, innovation, economic growth, and employment.

In specific regard to the Caribbean, national governments and development institutions are pursuing a robust private sector development agenda, within which enabling entrepreneurship is a key component. While crowdfunding has the potential to contribute to overcoming the economic impediments that prevail in the Caribbean, the economic realities in the region also mean that establishing a thriving crowdfunding ecosystem will take time and will require enlightened and farsighted leadership from national governments and development agencies. An important first step for the Caribbean is to understand the status of crowdfunding in the region in order to chart a path for public and private sector actors to work in concert to grow crowdfunding as a means for greater economic growth.

## **Objective, Scope and Methodology**

Following initial demand from entrepreneurs in the Entrepreneurship Program for Innovation in the Caribbean (EPIC), *infoDev* commissioned this study as a preliminary assessment of the crowdfunding ecosystem in the Caribbean. The objective of this research was to:

1. Assess the general readiness of the region for crowdfunding development, and,
2. Provide actionable recommendations for public and private sector stakeholders to enable the development of crowdfunding in the Caribbean region.

The intended audience of this research includes a wide variety of public and private sector actors, including policy makers, regulators, SMEs, entrepreneurs, ecosystem support organizations, and development institutions. Any large-scale change requires concerted and coordinated efforts from all parts of the ecosystem. This effort will require sustained dialogue and active collaboration between the public and private sectors. This initial assessment provides a starting point for follow-on research, dialogues, policy framework development, pilot programs, and other activities as the ecosystem begins to expand access to capital in the region.

Given the large geography that encompasses the Caribbean region, and given the wide scope of the research, a subset of countries was selected for study ensuring representation from different parts of the ecosystem (including from the Organization of Eastern Caribbean States), different levels of economic development, different population sizes, and different levels of financial

sector development (for example, securities regulations, financial transaction infrastructure, SME development) and awareness of the topic of crowdfunding. Based on these factors, the EPIC program recommended Barbados, Jamaica, Saint Lucia and Trinidad and Tobago to ensure the study represented the diversity of perspectives and experience on the topic of crowdfunding in the Caribbean.

The research methodology was to conduct interviews with stakeholders from across the entrepreneurial ecosystems in each of the four countries. These stakeholders were recommended by the EPIC team in consultation with *infoDev* in Washington DC. Details about the methodology and a full list of interviewees are presented in **Appendix B**. The interviewees provided information on a number of important areas including the state of the financial infrastructure, financial regulation, entrepreneurship development, technology utilization (for example, mobile and social media utilization), cultural norms, and business practices.

## **Theory of Change**

The ultimate goal for countries and regions for their crowdfunding-related efforts is to help drive broader economic development, improve access to finance for SMEs and start-ups and expand investment opportunities for local and diaspora investors. However, consideration of these broad goals is beyond the scope of the current study and its recommendations. This report focuses more specifically on how to build on the nascent and uncoordinated efforts in crowdfunding in the Caribbean to develop a more structured and collaborative program of activities and pilots to create regionally appropriate experience and success stories in crowdfunding. Achieving this will not be easy and it will not happen overnight. Significant action will be required by both public and private stakeholders to create real opportunities for new access to finance and invigorate the entrepreneurial ecosystem in the Caribbean.

Different countries and regions around the world have considered whether bringing about this change should be technology platform driven (for example, the United Kingdom and Estonia) or regulation/policy driven (for example, Malaysia and Thailand). The Caribbean may consider taking a combined approach, that is, one that is led by policy/regulation to ensure investor protection and stability, but is heavily influenced by technology platforms that are bringing the enabling innovation to this market.

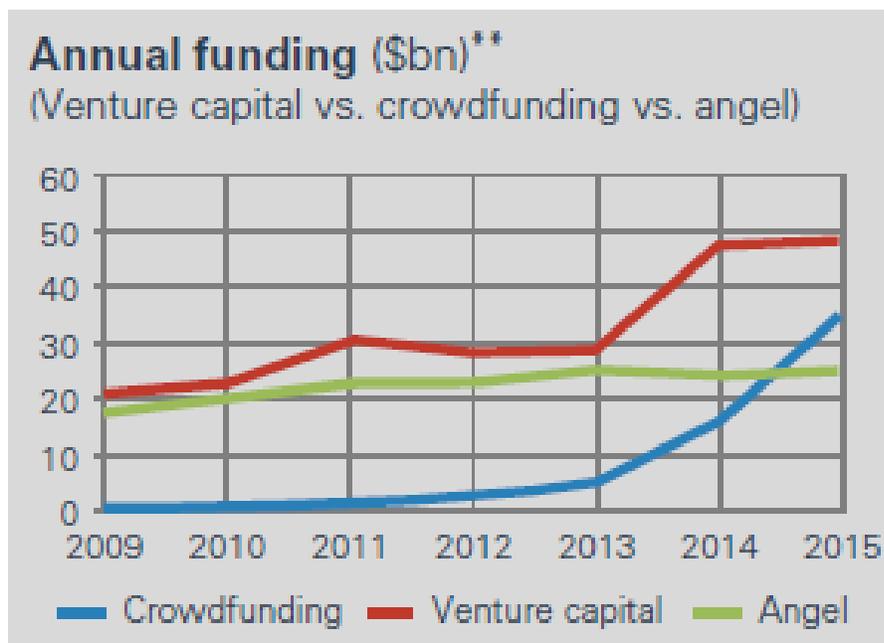
## 2. Potential Benefits of Crowdfunding

In markets where debt and equity crowdfunding have been in operation longest, these new funding mechanisms have been a positive force in the financial markets for early-stage firms that successfully used them. This section outlines the potential benefits of contribution, reward, presale, debt and equity crowdfunding for three key stakeholder groups – entrepreneurs, investors, and regulators.

### Benefits for Entrepreneurs

Increased financing and revenues: Crowdfunding can increase the supply of capital sources to SMEs and entrepreneurs that are unable to access traditional sources of capital, such as bank lending, individual professional investors and, or venture investors). In the United States, crowdfunding has grown to surpass angel investing as a source of early-stage funding, without a measureable displacement of either angel or venture capital investing (see Figure 3.1).<sup>6</sup> In the United Kingdom, firms who crowdfunded increased both sales revenue and employment.<sup>7</sup> Data show that crowdfunding by SMEs may lead to increases in revenue and may create employment, on average by 2.2 new employees the year following a successful campaign (Crowdfund Capital Advisors 2014).

Figure 2.1. Crowdfunding now Surpasses Angel Investing



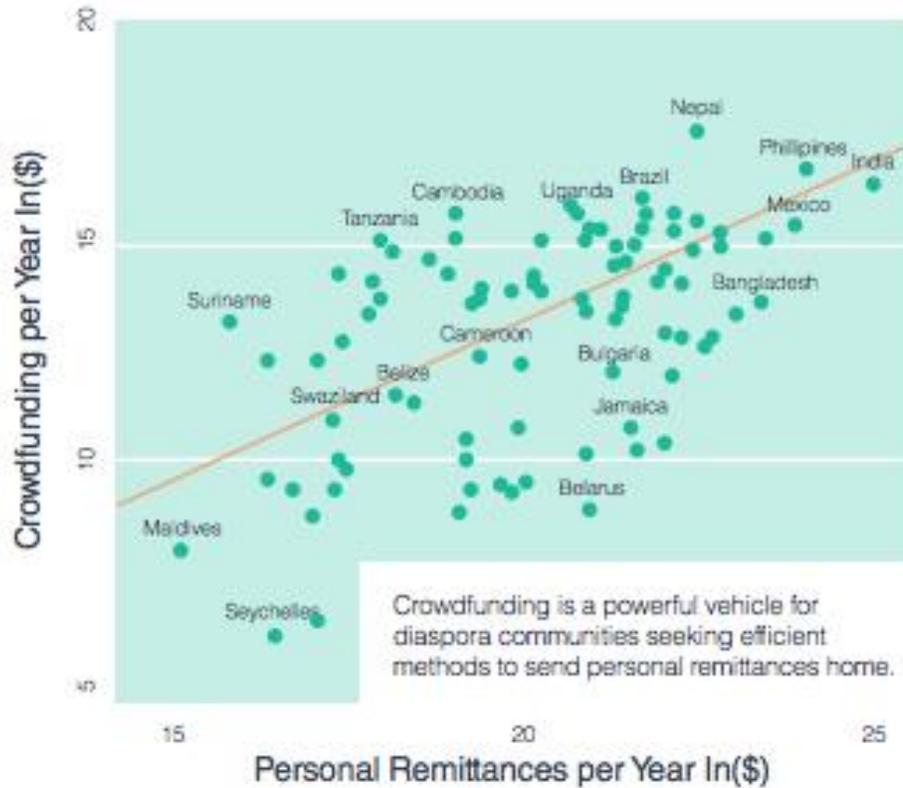
Source: <http://www.homestrings.com>.

Market testing and demand measurement: Reward and presale crowdfunding may allow firms to validate their product or service quickly and efficiently before the expense of manufacturing, product launch, or starting operations. Traditionally, investors had to invest to enable the first production run to occur, and only then could entrepreneurs determine product-market fit. Product-presale crowdfunding provides entrepreneurs with the opportunity to test the market, prior to making significant investments in manufacturing, inventory, and distribution. From an investor's perspective, this lowers the risk of an investment, since demand for the product has already been demonstrated. Some large U.S.-based angel groups, for example, Heartland Angels (based in Chicago) and Global Angel Investors Network (based in Georgia), have created their own crowdfunding portals with the expectation that firms seeking capital must prove market acceptance through a successful crowdfunding campaign. If successful, these angel investors will then supply additional funds.

Access to early-stage support networks: By offering a crowdfunding campaign, companies may engage a highly motivated group of customers that act both as product evangelists and as a rich source of feedback. Investors may also have skills from which entrepreneurs can benefit in addition to capital. Anecdotal data suggests that these early investors will make introductions for the firms, working in many ways as advisors and product evangelists – activities that will substantially help support the firms through the challenges of early growth. This benefit is true of contributions, reward, presale, and equity crowdfunding. When campaigns are able to increase the number of repeat givers, these investors tend to give more with successive donations, and they recruit others to give. Increasing the number of repeat givers by just 10 percent may yield over 60 percent more money donated over time (Althoff and Leskovec 2015).

Connection to Diaspora: Crowdfunding has the potential to connect communities of diaspora to engage in more than remittance payments to help support entrepreneurs and companies (see Figure 3.2). Given the potential for increased visibility and networking, crowdfunding may offer start-ups access to skilled individuals for employment, as well as allowing larger businesses to identify early-stage innovation for investment or deal flow.

Figure 2.2. Crowdfunding versus Personal Remittances Across Countries



Source: Alliedcrowds.com.

Gender agnosticism: Early data show that women outperform men at meeting their goals on crowdfunding projects.<sup>8</sup> This suggests that crowdfunding by and for women may be a key mechanism for channeling funds to enterprises owned or run by women, although this data is specific to the United Kingdom and United States. Further research is required to understand this dynamic in emerging markets, including the Caribbean.

### Benefits for Investors

Democratization of access to a new asset class: In creating financial return crowdfunding in the Caribbean, standards-based and transparent access to this new, generally higher risk, asset class would be created for both accredited and unaccredited investors alike. While a limited number of accredited Caribbean investors have access to private investments today, crowdfunding would create a “level playing field” to provide all investors (both high net worth and retail investors) with the potential to review these investment opportunities. Given the limited number of local or regional investment opportunities that currently exist in the Caribbean, over time this could become a meaningful benefit. These platforms would also enable easier access for diaspora investors to view these same opportunities.

*Efficient access to deal flow:* By centralizing access to data on available investment opportunities, crowdfunding facilitates the flow of information to potential investors more rapidly than has been previously possible. Crowdfunding expands the geographical range of sources of capital compared with what is possible via traditional early-stage investment. Traditional models require companies to hold numerous meetings to seek capital, which is both labor and capital intensive, as well as highly inefficient. Crowdfunding portals allow potential investors to investigate numerous offerings online at one time and to quickly determine if the investment opportunity fits their portfolio strategy, risk appetite, or interests. More importantly, in the United States, investors now monitor donation-based crowdfunding platforms seeking to identify innovative companies and products. A new class of analyst is appearing to assess crowdfunding investment opportunities to provide better analytics that can help investors decide if a business is worthy of funding.<sup>9</sup> These emerging dynamics reinforce the transparency, visibility, and credibility of an investor's deal pipeline.

*Novel syndication models:* Crowdfunding has the potential to provide new and possibly lower friction access to investment opportunities for traditional investors in either a closed environment (for example, an angel group) or an open environment (for example, public crowdfunding). Crowdfunding can deliver capital to companies in days or weeks rather than months or years. Virtually all lending-based campaigns close in fewer than 21 days and equity campaigns close in fewer than 90 days. While crowdfunding investments are typically smaller than those made by traditional investors, in both cases funding is issued more quickly compared with investment from traditional sources.

## **Benefits for Regulators and Governments**

*Access to transparent data:* One of the most significant beneficiaries of crowdfunding is the regulator because, for the first time, they can have access to timely, periodic (for instance, quarterly), and unfettered data about private capital markets. This increased transparency and timeliness enables improved regulatory oversight. Furthermore, given such transparency, a regulatory framework can be created with rules that are less burdensome to industry, while still providing robust investor protection through the use of near real-time data feeds from debt and equity crowdfunding platforms.

### 3. Enabling Factors and Constraints

Alternative finance ecosystems, including crowdfunding, are comprised of three key elements:

1. *Users* of the systems, both seeking and supplying capital (respectively demand-side and supply-side),
2. *Technology* of the system, which connects users and allows for transfer of capital, and
3. *Laws and Regulations* which govern all types of alternative finance transactions.

Within these three general archetypes, there are specific characteristics that determine the functioning of an alternative finance mechanism. The user, technology, and legal and regulatory characteristics described below serve as the framework for analysis of crowdfunding in the Caribbean.

#### User Capacity Factors and Constraints

##### *Demand Side*

The number and capability of businesses and consumers seeking capital via platforms are an essential component for the growth of alternative finance.

*Quality and quantity of crowdfunding offerings.* For preselling, and contributions, the quality of the offering refers to the underlying marketability of the product or service. The presence of entrepreneurial support programs can bolster entrepreneurial capacity for developing a business concept, launch, growth and financing strategies, including strategies to access crowds successfully. Analysis should account for support programs and entrepreneurial communities regarding crowdfunding.

For debt products, availability and reliability of credit reporting information is central, and is often complemented by receivables or other data points including online selling history (for example, on eBay), tax software inputs, and social media reach.<sup>10</sup>

For equity products, essential quality assurance mechanisms include financial data, and information around the management team, product, market, and potential exit strategy. Many equity platforms rely on signaling by sophisticated investors, who serve as deal leads for other follow-on investors, for example, AngelList. Other platforms, such as Funderclub, utilize a venture model where screening is conducted by a “general partner” before deals are listed for review by investors.

The number of projects required to support a platform will be unique to the operating model of each crowdfunding platform. For example, in the case of Kickstarter, the platform started from

zero to reach about \$500,000 per month in the first 6 months. After two years, the platform was supporting monthly fundraising of about \$7 million.

### ***Supply side***

The availability of funds from contributors, lenders, and investors is essential to the operation of alternative finance systems.

*Contributors and Purchasers.* The quantity and proclivity of contributors or presale customers is central to funding of contributions, reward, or presale crowdfunding campaigns. These users must be aware of, and comfortable with, the platform and payment technologies, as well as a willing customer or supporter of the product or service being offered. Younger people are often more inclined to use crowdfunding systems. Groups of crowdfunding users may coalesce around a shared affinity, such as video games or genre of film production.

*Nonaccredited Investors or Lenders.* Depending on a country's regulations, debt and equity platforms may allow nonaccredited, or unsophisticated, investors to participate in the issuance of securities to consumers or companies. These individuals are central to the early growth phases of any peer-to-peer marketplace. Nonaccredited investors are often limited in the amount of capital they can invest and must adhere to educational requirements that deliver information about risk, and the high-risk profile of SME and start-up investing before investing to guard against fraud and various market risks.

*Accredited and Institutional Lenders and Investors.* Angel investors, venture funds, banks and other institutional investors participate in equity and lending platforms. National regulation plays a foundational role in the participation of institutional entities in these marketplaces. The investment of funds and banks in assets generated on alternative finance platforms, most often peer-to-peer lending, has grown exponentially over the past few years, as these entities have shifted their perspective of alternative finance platforms as competition to regard them as a means of asset origination.

*Promotional Programs.* There are numerous examples of incentive programs to encourage contributors, lenders, and investors to put their money into crowdfunding campaigns. These programs can serve as either deal-leads, conducting due diligence, and putting first money in to assure investors of a threshold of deal quality, or as follow-on or "matching" capital, which can provide incentives for campaign contributions in scenarios where supply-side actors are reluctant to use the new technology.<sup>11</sup> These programs are publicly funded, and can be developed to stand alone or as a window within a larger investment promotion fund. In the case of platform-enabled equity investing, tax incentives can serve as a risk mitigation for investors similar to those

extended to offline angel investors. In emerging markets that offer citizenship for investment programs (sometimes known as “investor visa” or “investor passport” programs that provide permanent residency or citizenship based on investment in the country), the parameters of these programs could serve as incentive for platform-enabled investment activity.

### ***Supply and Demand Sides***

The following factors are relevant for both those seeking and sowing funds on alternative finance platforms.

*Internet penetration and usage.* Internet penetration is a foundational condition for all actors to participate in crowdfunding. In some emerging markets, individuals who are not connected to the Internet pool funds offline that are then channeled to a crowdfunding campaign, but this practice does not scale easily. In addition to measuring the number of individuals who have access to the Internet, accounting for how individuals behave online is also important. Unidirectional Internet usage, that is, the simple consumption of information, is insufficient for alternative finance models; bidirectional Internet usage is a prerequisite for development of crowdfunding. Indicators for bidirectional usage include Internet banking, participatory social media content production, and online shopping.

*Utilization of social media and email.* Also within the context of Internet usage, online communication channels are of central importance for the adoption and scale of crowdfunding and equity platforms. Direct email to familial and personal networks bears the largest “conversion rates”<sup>12</sup> for contributions to crowdfunding campaigns. Social media is an essential force for virality<sup>13</sup> of campaigns. Social media and email usage can be measured on a macro basis to understand the number of potential virtual participants in the crowdfunding ecosystem. While important for equity and debt crowdfunding, this scale is particularly important for contributions crowdfunding, whose participants give small-sized contributions and must necessarily be larger in number.

*Utilization of payment systems.* The size of contributions in nonsecurities crowdfunding tend to be small, and typically utilize payment gateways such as Apple Pay, PayPal, or Stripe. For investments or lending of larger amounts, electronic transfer from lenders or investor bank accounts are required.

*Awareness of alternative finance mechanisms.* Beyond the mere existence of potential supply and demand-side alternative finance users, and their utilization of both social media and payment systems, actors must be aware of the mechanisms themselves. For example, presale crowdfunding markets such as Kickstarter are thriving in developed markets on the back of only

a minority of the population. Awareness can be measured at varying levels, for instance, at a societal level, or within a particular social or professional network. The level of awareness is closely linked to the potential scale of the industry or the fundraising potential of a particular crowdfunding campaign. It is important to note that investor awareness of these crowdfunding investment opportunities or issuer awareness of crowdfunding to raise capital, do not equate to proficiency in crowdfunding. Awareness is only the first step in the education process that leads to utilization. Simply being aware of a new type of financial instrument does not mean it is a suitable investment for that individual, or a suitable way to raise capital for a business. Individuals may be aware of crowdfunding for years, but not able to execute a campaign successfully because they have not been taught how to conduct a campaign successfully in the case of a business, or how to invest in a campaign in the case of an individual. Given the high-risk nature of crowdfunding investments, proficiency in utilizing alternative financial instruments (for example, crowdfunding) will require education of investors, companies and investment advisors so all parties can determine suitability, just as broker dealers have a responsibility to determine suitability of any other type of investment in working with their clients.

*Trust in counterparties and intermediaries.* Trust in all elements of the alternative finance value chain affects the willingness of users to participate in these systems. This issue pertains to the reliability of the counterparty of the transaction, the financial intermediaries as well as the finance platform itself.<sup>14</sup> Individuals with higher levels of trust show a greater willingness to support new business innovations, which others may perceive to be too risky. As such, while specific measures of trust in alternative finance systems may not exist, proclivity to trust these new systems can be extrapolated from broader analysis on trust in financial services and innovation.

The recommended actions to promote increased stakeholder awareness and facility in the Caribbean are:

- A Regional crowdfunding stakeholder conference for regulators, policy makers, fintech companies, SMEs and start-ups, and investor advocates to learn from global best practice and the latest data analysis, and commit to a process for pursuing a balanced stakeholder framework for regional crowdfunding model regulations that all countries could consider.
- Creating and providing seed capital to an established Caribbean Crowdfunding Association or group to help foster ongoing dialogue between financial technology firms and regulators and policy makers.
- Developing work streams for SME advocates and accelerators/incubators to educate early adopter companies to use crowdfunding to raise capital for a business.
- Building awareness and proficiency with potential investors for those campaigns. Begin offline collaborations between technology platforms, business owners, and entrepreneurs.

## Technology Enabling Factors and Constraints

Existence of accessible platforms (local and international). Related to the awareness of alternative finance platforms, the mere existence and accessibility of alternative finance platforms is an essential first step, but as mentioned above, market participants (investors and companies) require further education in order to effectively utilize crowdfunding. Access by issuers (that is, entities that develop, register and sell securities) can be limited by platform policies related to citizenship, banking or payments, or by legal and regulatory frameworks of the country within which a platform is domiciled. Analysis can tally existing platforms and account for accessibility by local users in spite of potentially prohibitive access policies.

Payment systems. A well-functioning payments infrastructure is necessary to support growth in financial and real economies, and is likewise fundamental to the processing of all transactions across types of alternative finance. As stated above, payment gateways as well as electronic transfer mechanisms must be operational for contributions, equity, and debt crowdfunding to occur.

Availability of credit reporting inputs. Peer-to-peer lending platforms require credit data inputs similar to traditional lenders for the pricing of their debt. This requires a credit data set that is accessible by private sector lending platforms. Establishing such a regime requires an appropriate legal and regulatory framework, gathering support from market participants, ensuring commercial viability, training regulators, identifying appropriate operators (including technology solutions and software) and the most important element of all which is the actual data. According to the IFC Caribbean Credit Bureau Program (Holden and Howell 2009), “a wide spectrum of data must be housed. It must be relevant, accurate and complete, and it must be updated regularly by the contributors of the data.” This challenge of a borrower that cannot be qualified by traditional means, also known as a “thin credit file customer” is a common one in developing economies. There are a number of solutions in other regions that are being created to support better documentation, tracking, and credit assessment that may not require the exact same data as is used in developed economies. For example, companies such as EFL have created a behavior-based credit scoring test that can be taken on any smart phone to assess credit worthiness. Their results have been studied by the Inter-American Development Bank and others.

In order to modernize financial technology capabilities in the Caribbean to achieve results similar to countries in Southeast Asia, the following actions are recommended:

- Support the creation of financial return crowdfunding platforms (both equity-based and lending-based models) with technical assistance, mentoring, and financial aid.

- Organize a fact-finding mission to key countries to learn about financial technology innovations in online payments, delivery, cross border money flows, remittance payments and money transfer, and other enabling technologies.
- Form working groups with deadlines for establishing pilot programs for key technologies to enable crowdfunding.
- Execute pilot programs, document findings, key lessons, and best practice and expand pilots to additional countries in the region.

## Legal and Regulatory Enabling Factors and Constraints

Legal precedent on crowdfunding fraud. Reward crowdfunding is greatly impacted by existing commerce law and consumer protection regimes. Recently in the United States, legal precedent has developed for suing the proprietors of crowdfunding campaigns that misuse funds or defraud contributors. Measuring the existence of such precedent constitutes a legal opinion on the current status and likelihood of criminal and civil recourse for crowdfunding malfeasance.

### Box 3.1. Crowdfunding Regulation in the United Kingdom

The most sophisticated crowdfunding ecosystem is currently found in the United Kingdom which, rather than over-regulating the industry at the outset, decided to monitor the market closely as it begins to take shape. As platforms gained initial traction, the United Kingdom crowdfunding industry approached the regulators with a plan to regulate it in a way that was data intensive while being prescriptively “light touch.” This meant that investor protections and accountability of the platforms were dependent on the transparency of the offering stored in a digital footprint. According to Tanya Ziegler (Research Project Manager, Cambridge Centre for Alternative Finance), “The implementation of a (tailored) Crowdfunding regime, with protracted goal posts and interim permissions, has allowed for the UK’s FCA to observe the evolution of Crowdfunding in a controlled and prescriptive manner. At present, the FCA has commissioned the CCAF to conduct research on the UKs crowdfunding market, where the university has provided evidence-based feedback for the use of the FCA to further refine their crowdfunding regulatory approach. By opting for a results-based regime, the progression of Crowdfunding regulation has allowed for platforms to grow whilst still being under the mindful eye of the regulator. Such an approach has also been seen in Malaysia, with the inclusion of a regulatory sandbox with a similar review and communication procedure.” With ready access to all the information and data about offerings (both debt and equity), regulators in the United Kingdom, as well as the market participants (investors and issuers), had the confidence to allow the market to evolve. Regional stakeholders can consider these types of regulatory regimes, and how new technology can support a highly transparent and efficient approach to oversight that is appropriate within the Caribbean context.

Securities regulation. Alternative financing of securities is governed by a country’s existing securities regulatory framework, regardless of whether this regime has been intentionally

designed to govern platform-enabled financing or not. The following questions / points should be considered in determining how existing securities regulations govern the actions and requirements of investors, fundraisers, and intermediary equity or debt platforms:

*Supply-side (investors):*

- Investor education. Does a country regulator require investors to participate in education on the risks of investing?
- Investor classifications and limitations. Does a regulatory jurisdiction classify investors by their income or liquid assets? Do these classifications correspond with investment limitations on a deal and annual basis?
- General solicitation. May platforms present investment opportunities freely to potential investors? Are they perceived as offering investment advice and, if so, should they be registered as a broker dealer with a regulatory agency?

*Demand-side (fundraisers):*

- Disclosure. What information must be transmitted to all potential investors, including information regarding the company, the offering, the structure and terms of the investment, the valuation of the offering, and risks of the investment? What financial statements may be subject to verification in the event that the fundraising campaign exceeds certain thresholds?
- Capital raising limitations. How are entrepreneurs limited on the amount of capital they can raise periodically via securities crowdfunding portals?
- Background checks. What checks are entrepreneurs and some associated counterparties subject to as a means of meaningful fraud detection?

*Intermediaries (platforms):*

- Registration, reporting and monitoring. How are alternative financing portals accounted for by regulatory agencies? What information and oversight are they subject to on a periodic and/ or real-time basis?
- Payments and commerce. What laws and regulations address issues such as insolvency and contractual relations between parties, laws and regulations that have specific applicability to payment systems (such as legislation on electronic signature, validation of netting, and settlement finality), and the rules, standards, and procedures agreed by the participants of a payments system? (World Bank 2011).
- Platform or third-party escrow services. An important aspect of all forms of crowdfunding is an escrow, or escrow-like, service to hold client money during the course of a transaction. This creates trust in the transaction and the platform, since the client's

money will be returned if the transaction fails or does not reach its goal. It also enables investors to change their mind prior to the close of the transaction and easily regain their capital. It also demonstrates transparency for all parties. In countries with currently available escrow services, they can be adapted to crowdfunding, or new online transaction enabled services can be created. In countries with no escrow services or high friction or expensive escrow services that are built for very large transactions, it may require the creation of a new type of escrow service for crowdfunding and other online financial transactions.

- Platform “Wind Down” provisions. In the event that a platform ceases operations, there should be a predetermined and transparent process for winding down operations and disbursing all client capital that may be held in a standardized manner. In the case of lending crowdfunding, these wind-down provisions should also include provision for a backup servicer for all loans so that if the platform closes the loans continue to be serviced, until all loans are fully disposed.

Regulators and policy makers can take different approaches to regulating financial return crowdfunding to both protect investors and enable capital formation for existing SMEs and start-ups. The Cambridge Centre for Alternative Finance’s report *Crowdfunding in East Africa: Regulation and Policy for Market Development* (Garvey, Ziegler, et al, 2017), defines the following approaches:

- **Exempt market/Lack of Definition** – Market classified as exempt, or lack of legislative definition. In some cases, regulation protecting investors and fundraisers still applies. Relates to, for example: unfair interest rates, affordable credit and false advertising.
- **Intermediary/Platform Regulation** – Regulates equity and loan-based platforms as intermediaries, and usually requires registration and other regulatory requirements depending on the jurisdiction. Generally, requirements are for platform registration, and also include prescriptions relating to business conduct, governance and reporting.
- **Banking Regulation** – Regulates platforms as if they were banks, due to their credit intermediation requirements. Platforms therefore essentially need a banking license, and are subject to full disclosure and reporting requirements.
- **Both National and Local/Provincial Regulation** – Two levels of regulation and require licensing: for example, in the United States, federal regulation is monitored by the Securities and Exchange Commission (SEC), and state regulation is applicable to state-level securities agencies. Some U.S. states have imposed an outright ban on equity and debt-based activities, while others have implemented crowdfunding exemptions which allow for a broader investment base with non-accredited investors able to participate in securities sold on licensed platforms.

- **Prohibited** – Equity crowdfunding and loan-based crowdfunding are banned outright.

Based on the above, the following are recommended to advance Regulatory Enhancements for regional crowdfunding in the Caribbean:

- The creation of a working, with a deadline for a final recommendation within 12-18 months, to develop model regulations for financial return crowdfunding in the region. This working group should have active participation from:
  - Policy makers and Regulators
  - Entrepreneurs and SME owners
  - Tax policy experts
  - Innovation experts
  - Accelerators/incubator experts
  - Fintech and crowdfunding company CEOs
- The output of this working group should be:
  - Draft model rules for crowdfunding regulation across the Caribbean that employs a balanced stakeholder framework approach.
  - Draft tax incentive policy for crowdfunding that can be customized by countries in the region.
  - Draft model rules for a regulatory sandbox that all members of the Caribbean can adopt to create a regional laboratory for regulatory innovation for small nations.
  - Draft model rules on electronic payments, money transfer, cross border money flows, anti-money laundering (AML), and know your customer innovation policy.
- Two or three lead countries could then use these model rules to become the initial launch countries and then additional countries could follow as they become ready.

Table 3.1 summarizes the enabling factors and constraints for the different types of crowdfunding.

**Table 3.1. Summary Table of Enabling Factors and Constraints**

Key Element	Factors	Contributions	Equity	Debt
<b><i>User Capability</i></b>				
Supply	Promotional programs	X	X	X
	Availability of credit reporting inputs			X
Demand	Institutional lenders			X
	Qualified Investors		X	X
	Contributors and purchasers	X		
Demand	Quality of crowdfunding offerings	X	X	X
<b><i>Technology</i></b>				
Supply and Demand Sides	Internet usage (bidirectional versus unidirectional)	X	X	X
	Utilization of social media	X	X	X
	Utilization of payment systems	X	X	X
	Awareness of platforms and marketplaces	X	X	X
	Trust (counterparties and intermediaries)	X	X	X
<b><i>Legal and Regulatory</i></b>				
Supply and Demand Sides	Legal precedent on crowdfunding fraud	X	X	X
	General solicitations		X	X
	Investor classifications and limitations		X	X
	Exchange controls and limitations on crowdfunding transactions	X	X	X
	Reporting and monitoring standards	X	X	X
	Secondary market availability		X	X
	Contributor/investor education and protection requirements	X	X	X
Intermediaries (platforms)	Existence and access to local crowdfunding platforms	X	X	X
	Accessible international platforms	X	X	X
	Payment systems	X	X	X
	Electronic banking systems	X	X	X
	Supportive platform policies	X	X	X
	Utilization of escrow services to hold client money during a transaction before the offering closes	X	X	X
	Platform “wind down” provisions to indicate how client money will be handled and returned in case the platform shuts down	X	X	X

## 4. Individual Country Assessment for Crowdfunding

Data was collected from extensive in-person interviews with over 70 stakeholders from the public and private sector that were conducted in Barbados, Jamaica, Saint Lucia, and Trinidad and Tobago. In accordance with the mandate of the World Bank Group's Innovation and Entrepreneurship Unit, the stakeholder interviews centered on the entrepreneurial ecosystem, including business incubators, accelerators, and other support networks, in order to clearly understand crowdfunding's utility to expand the financing options for the Caribbean entrepreneurial community. Focus group participants were identified in partnership with World Bank staff in Jamaica and Trinidad and Tobago as well relevant government counterparts, such as the Saint Lucia Development Bank, InvesTT Trinidad and Tobago, the University of the West Indies in Barbados, and the Ministry of Science, Energy and Technology in Jamaica.

The in-person interviews with relevant stakeholders explored their knowledge about the technological, regulatory, and societal conditions in their home country and across the region to understand the status of the essential building blocks for a crowdfunding ecosystem, as well as their views about potential strategies to promote crowdfunding.

This initial assessment was not designed to produce a crowdfunding readiness "score" per se but, rather, to highlight the status of major contributing factors of a nascent crowdfunding ecosystem. The resulting framework is designed to inform work programs of public and private sector stakeholders to promote the sustainable growth of crowdfunding models in the Caribbean.

Potential regulatory conflicts may emerge during the process of examining how to modernize regulation to enable financial return crowdfunding. While cross-border conflicts between regulatory regimes can be immediately visible, it can also be challenging when there are questions about how new and innovative financial instruments or financial products should be regulated within a country. Where the line is drawn between securities regulators, banking regulators, economic development initiatives, and other regulators and policy makers can create new questions that may require redrawing some of the regulatory maps. While the initial review of regulations in the four target countries did not reveal any obvious overlaps in regulatory control, further expert study may be warranted to gain additional perspective.

### **Barbados**

#### ***Overview***

While there are examples of entrepreneurship, Barbados is a Caribbean country that has opportunities to bring together its entrepreneurship ecosystem and to develop new financing

options for it. Barbados enjoys a reputation for having a comparatively high level of development by the standards of Caribbean countries with a transparent environment that the World Bank classifies as one of the highest rated countries in its category for the Worldwide Governance Indicators (Compete Caribbean 2013a). The country has a significant diaspora population in the United Kingdom, Canada, and in specific parts of the United States. The entrepreneurial ecosystem is at an early stage of development owing to the large number of large employers on the island and the cultural expectations by families and parents that their children and other relatives should get a “good job” with a large company. The challenge here is that many of the large companies are not growing fast enough to employ newly graduating students, which creates the need for those students to either seek work abroad, return to school, or be underemployed.

Key industrial sectors within the country have historically centered on services, especially tourism (with over 400,000 tourists in 2014) and wholesale and retail trade. Its main exports are liquor, frozen fish, and preserved milk. The GDP per capita average in 2010-2014 was \$15,199<sup>15</sup> one of the highest in its comparator countries. The economy has had stagnant growth rates averaging 1.4 percent over the past 20 years with inflation averaging 3.6 percent (Compete Caribbean 2013a).

The unemployment rate in Barbados is about 11.7 percent,<sup>16</sup> with over 60 percent of young people either unemployed or underemployed in 2013.<sup>17</sup> There is concern that, although tourism sector jobs are growing, other areas of the economy are stagnating, which could create challenges longer term for the country. Finding ways to create jobs to fill the gap arising from the lack of growth in large companies and providing opportunities for economic diversification are important strategies for the government to consider. Supporting entrepreneurship and SME development via new financial tools may help to support governmental economic development efforts.

### ***Entrepreneurship Ecosystem Assessment***

**Opportunities exist for Barbados to expand the range of services and training that are provided to entrepreneurs.** During discussions with entrepreneurs in Barbados, there was strongly expressed desires for more support for their efforts. While the need for more funding was discussed, a significant need was identified for programs, education, co-working and other noncash infrastructure for entrepreneurs. Grant making facilities are available in Barbados, but accessing these sources of capital, while available, are challenging and time consuming. There may be opportunities to create co-investing vehicles with crowdfunding that may facilitate ways to leverage government resources and engage the citizens of Barbados. Example financing (BD\$) options include:

- The Enterprise Growth Fund Limited (EGFL) provides both loan and equity financing of between \$100,000 and \$1,500,000 to entrepreneurs and SMEs in Agriculture, Smart Energy, Innovation, Small Hotels Investment Fund, Tourism Loan Fund and Trade receivables liquidity facility.<sup>18</sup>
- The Caribbean Financial Services Corporation (CFSC) provides loan and equity financing between \$100,000 and \$1,000,000 to entrepreneurs and SMEs.
- The Barbados Investment Fund (BIF) is a fund established by the central bank to fund SMEs operating in Barbados in manufacturing, agroindustry, tourism and related services. Capital is provided for real estate, equipment and, or working capital.
- The Industrial Credit Fund (ICF) provides lines of credit of up to \$5,000,000 that are advances of up to 90 percent of accounts receivable.
- Barbados Youth Business Trust provides loans and grants of up to \$25,000 to either start a business or expand a business. The business must be less than five years old to qualify. This facility also provides small grants of up to \$1000 for entrepreneurs to use on evaluating business opportunities or education. Interest rates on repayment are between 10-12 percent per annum.<sup>19</sup>
- Scotiabank markets the fact that they also provide term loans and lines of credit of between \$30,000 and \$1,500,000 for SMEs that qualify. These loans are either fixed or variable interest rates.<sup>20</sup>

Barbados classifies a small business as one that has less than 25 employees and has less than \$2 million in annual sales. In 2012, the Minister of Industry, Small Business and Rural Development, Denis Kellman, stated that there were over 11,000 formalized/registered small businesses in the country, accounting for about 32,000 employees or 25 percent of the labor force.<sup>21</sup> Access to capital is an ongoing concern for small businesses. While attempts have been made to address the imbalances between supply and demand, these challenges remain.

Dialogue with entrepreneurs indicated that their needs for access to finance and ecosystem support are not currently being met. The perception remains, despite the development of programs and products, that the government is not providing the type of environment and support that entrepreneurs and high-growth SMEs need. Banks are largely absent from this market because of they have implemented requirements that start-ups are unable to fulfill (for example, three years of financial accounts, cash flow, profits, customers, and so on).

To create new forms of financing, the World Bank and other public and private sector partners are working to develop the continuum of funding for entrepreneurs in Barbados. The World Bank and the Inter-American Development Bank are partnering with individuals in Barbados to

promote an angel investing ecosystem via the assistance of Trident Angels, an angel group based in Barbados that is seeking find and invest in promising entrepreneurs with innovative businesses, both in Barbados and across the Caribbean region. The goal of this group is to invest up to BD\$100,000 in individual companies in exchange for an equity position in that company. It is likely that the future investment strategies of angel groups will focus on services, rather than technologies, given their background in traditional industries.

**As in other countries in the region, the viability of venture capital will depend on investable deal flow.** Funds that have been created in the region to date have had difficulty in finding the types of deals that support the risk and return profile of venture capital funds. There are no venture capital funds currently operating in Barbados.

It is believed that part of the challenge in the mismatch between entrepreneurs and investors in developing economies may, in part, be because the two groups are not able to easily locate and evaluate each other. However, technology is now available to help achieve this. That same technology may also be able to create pathways for access to capital that have not existed previously. The challenge is to determine if these new mechanisms to access capital can be utilized within cultures that have a lower tolerance of risk and trust in new things than those developed countries where crowdfunding has taken hold.

### ***Enabling Environment for Crowdfunding***

#### ***Regulatory Environment***

The utilization of international presale or donation-based crowdfunding websites, such as Kickstarter or Indiegogo, is not restricted in any way by the regulatory regime in Barbados. Rather, the use of these platforms is governed by the policies of the platforms themselves. For example, in order to use Kickstarter a Barbadian company or project must be registered in either the United States, United Kingdom, Canada, Australia, New Zealand, the Netherlands, Denmark, Ireland, Norway, Sweden, Germany, France, or Spain. The campaigner must also be 18 years old, a permanent resident and have an address, bank account, and government-issued ID in the originating country. The creator must also have a major credit or debit card.

Through research on Kickstarter, a total of nine Barbadian campaigns were discovered, three successful and six unsuccessful. The three successful campaigns raised a total of \$32,304 from 318 people. Two of the successful campaigns raised just over \$30,000 of that total and were annual fundraising drives for the same dance company. On Indiegogo, no campaigns were found. Equity and debt crowdfunding are subject to existing local Barbadian regulatory controls that govern debt and securities offerings, public solicitation, and qualified investors in a round before having to comply with public fundraising. The Financial Services Commission in Barbados has an opportunity to collaborate with the World Bank, regional regulators and regional and global

experts to understand innovative new funding vehicles for SMEs, and consider how to create balanced regulations based on global best practice that can help fill the void in early stage finance in Barbados. Doing so in collaboration with the Organization of Eastern Caribbean States (OECS) and CARICOM countries may help to create more efficient Pan-Caribbean investment and entrepreneurship.

These efforts could be aided by development organizations and other regional or global enabling entities, including *infoDev* and the World Bank. Specific issues that are inhibiting crowdfunding include:

- Exchange controls imposed by central banks that do not allow for reasonable money movement through the region, particularly in the case of U.S. dollars, the reserve currency for most Caribbean nations. These controls will have a measurable impact on VisionFunders' operations and ability to accept international donations and investments. However, because of the nature of these controls, it is unrealistic for VisionFunder to impact these rules on its own. Thus, this will require cooperation and a common approach involving public institutions, private companies, development organizations, and so on, to address this issue to support better SME finance.
- Current procedures regarding Anti-Money Laundering (AML) and Know Your Customer (KYC) requirements pose a significant risk to the viability of crowdfunding in Barbados and across the region. Large transactions inbound or outbound not only require greater scrutiny by banking institutions, but may be refused outright if they are believed to be "too risky" by the local bank. While AML/KYC is a cornerstone for global financial transactions, there may be opportunities to create capacity and shared understanding among leading banks in the region regarding crowdfunding and its transactions. With a fast-growing set of best practices being built globally, there is opportunity for capacity building to occur that includes, regional and national regulators, local businesses, and international development organizations. This support could include conferences, roundtable discussion groups with financial regulators, global and regional experts on the topic of how to streamline effective and robust AML/KYC procedures for crowdfunding transactions that involve international and regional known or approved crowdfunding entities.
- Access to global payment providers is challenging, especially for large payments. There are few global payment providers that provide services to the Caribbean and those that do are most likely overburdened by the laws and various financial controls required for so many independent "small economies." There are few services available to receive large transactions at Barbadian and Caribbean banks (for example, SWIFT, ACH, Cheque), and receiving large cash transfers via card services are problematic because of the relatively low holding and transaction limits imposed (that is, generally between \$1,000-5,000). This

includes credit overages on credit cards. Given this, what is needed is a facility whereby payment providers can natively link to regional bank accounts in the same way that PayPal is able to link to U.S. bank accounts. An alternative could be a global or U.S. facility such that, if needed, a project creator could pay a fee to route the proceeds of third-party accounts, such as PayPal, through an established and legitimate banking institution and receive their proceeds via wire transfer into a verified business account.

- The availability of crowdfunding mentors to support both entrepreneurs and enabling organizations as they attempt to raise capital via crowdfunding. Developing and delivering training and mentorship to build the ecosystem is also a challenge, but will be required to drive successful development of crowdfunding.

### *Technological Environment*

In a 2013 World Economic Forum study, Barbados ranked second in terms of technological readiness within the benchmark group of Latin American countries (Bilbao-Osorio, Dutta and Lanvin 2013, 13). In large part, this was because of its high Internet penetration rate and availability of technologies. In 2013, 75 percent of the population had Internet access<sup>22</sup> with mobile phone penetration at over 120 percent,<sup>23</sup> significantly higher than the global average. Facebook and WhatsApp are purported to be the largest social media platforms in the country, with Twitter a distant third place and LinkedIn only now beginning to be used by citizens. Smartphone utilization is believed to be rising sharply owing to the greater availability of 4G mobile coverage across the island and the desire for Internet access on less expensive mobile devices.

Barbados has invested steadily in its telecommunications infrastructure,<sup>24</sup> and though Internet usage has grown steadily, the use of mobile phones has grown much more quickly. Barbadian social media experts note that many with smartphones do not have data plans, but rather connect with available Wi-Fi networks. About 38 percent of Barbadians use the Internet, which is broadly in line with the rest of the world. Household Internet use, however, is only at 15.3 percent. Mobile phone use is of average popularity, with 102 mobile plans for every 100 people and is about the same as the world average of (105.18 per 100 people).

Online services are available from some banks, but the scope of services that are available and the willingness of individuals to use them are unclear. In conversations with different bank representatives in the region, two indicated that “online banking” utilization was very low, and they were about to launch “mobile banking apps,” which the bank staff believed would boost utilization. Upon further questioning, it was determined that people trusted their phones more than a web browser on their computer or laptop. This was an interesting anecdotal observation regarding how people trust different devices in different ways, even though they both reach the Internet to perform the same or similar tasks.

The wide availability of mobile web access is a positive for the opportunities for crowdfunding. However, the lack of transaction-based utilization of the Web for transactions is a challenge for crowdfunding development.

### *Social Environment*

**Barbados appears to have a traditional culture with both Caribbean and international influences.** The breadth and depth of social media utilization and engagement did not appear to be as profound as in other countries. Less than 15 percent of citizens own credit cards and online use of credit cards or making online payments by local citizens is rare. Most international online retailers will not ship directly to Barbados. PayPal holds funds for six weeks for companies in Barbados that are paid via their service. There is widespread distrust of business, people that are not known, fear that business ideas will be stolen, and concern about doing new things that may go wrong. “The power of example” is particularly important in bringing new ideas and ways of doing things in Barbados. Demonstrating early success can help to provide the impetus to move forward.

### *Crowdfunding Status*

The environment for both entrepreneurship and crowdfunding has been challenging in Barbados. Even with these challenges, Barbados is home for VisionFunder, a pioneer in rewards-based crowdfunding in the eastern Caribbean. VisionFunder launched its platform in for rewards-based campaigns in August 2014. VisionFunder has taken on the challenges it faces head on, to prove its model in Barbados, with aspirations to become a Caribbean-wide platform. Initially it will raise money for Barbadian businesses and when necessary will build partnerships with international partners. It plans to create some case studies of success and then use these in discussions with government officials to press for modernization of securities regulations and additional support for the entrepreneurial ecosystem. VisionFunder has created its own ecosystem of crowdfunding facilitators in the eastern Caribbean to provide a support system for entrepreneurs. This is an innovative approach to building capacity in a country or region and one that can be considered in other developing regions.

Barbados is home to Bitt, which describes itself as a secure digital exchange for both fiat currencies and Bitcoin for the Caribbean market. With its ability to exchange and transfer both cryptocurrencies and fiat currencies, there may be opportunities to explore how these types of exchanges could increase transparent and efficient crowdfunding transactions that comply with AML and KYC best practices. Exploring how virtual currencies and fiat currencies can work together to drive economic development, particularly for SMEs and entrepreneurs, is an area that is worthy of significant study and experimentation. Ensuring transparency, consumer protection, and collaboration with national and regional financial regulators are crucial in the development of these new practices.

## **Jamaica**

### ***Overview***

**Jamaica has a growing entrepreneurship ecosystem and is working to develop a continuum of financing options.** The country also boasts one of the most sizeable diaspora amongst all Caribbean countries with numerous organizations around the world actively fostering and maintaining economic, social, and political ties to the home country. In addition to a strong diaspora, Jamaica has a relatively vibrant entrepreneurship ecosystem. A 2013 Global Entrepreneurship Monitor briefing reported that, compared to the Caribbean average, Jamaicans discontinue involvement in business ventures at a higher rate, while simultaneously holding more positive attitudes towards entrepreneurship and more confidence in their abilities to start and run a business.<sup>25</sup>

Key industrial sectors within the country have historically centered on services, especially tourism, remittances, and the harvesting of bauxite/aluminum. However, the government is building partnerships to diversify the economy and increase competitiveness. The growth of the country has been largely stagnant, averaging about one percent per year for the past 20 years, and the country faces several barriers to growth. These include a high crime rate, corruption, unemployment/underemployment, a homogeneous economy susceptible to macroeconomic headwinds, and a debt-to-GDP ratio of about 130 percent, which is the result of multiple government bailouts of the country's financial sector. The current administration is pursuing the challenging task of implementing more fiscal discipline, while servicing debt payments, managing their crime problem, and promoting diversification and growth of the economy.

The unemployment rate in Jamaica is about 12 percent, with youth unemployment at 27 percent.<sup>26</sup> According to the World Bank, Jamaica must lever its skilled labor force and strong social and governance indicators to restore self-sustaining and job-creating growth.<sup>27</sup> Toward this goal, the Jamaican public and private sectors have made extensive efforts to promote economic diversification and economic growth through the support for entrepreneurship and associated financing environment to support the growth of firms.

### ***Entrepreneurship Ecosystem Assessment***

Jamaica boasts a number of entrepreneurial service organizations that support pools of entrepreneurs and provide tools and training for the growth of these businesses. During discussions with these "business enablers," funding for ventures was a constant challenge. The key initiatives are outlined below:

- The University of West Indies (UWI) Mona Business Support Services, in partnership with the Jamaica Business Development Center, currently provides incubator services to 11

clients in the fields of information technology, business processing and outsourcing, biotechnology, education, accounting, loans services, health services, education, and project management. Though the incubator plans to establish a funding source for their companies in the future, they have not yet secured investment for any of their hosted companies.

- The University of the West Indies is also leading a consortium for the Caribbean Mobile Innovation Project (CMIP), supported by *infoDev's* Entrepreneurship Program for Innovation in the Caribbean (EPIC) with a \$1.5 million grant extending from 2014 to 2017.<sup>28</sup> Under the program, the UWI consortium has invited qualified partners to become mobile application hubs (Mhubs) to support mobile technology start-ups in up to six Caribbean countries, including Jamaica. It is projected that 120 start-ups will receive services under the program. In addition, the program supports investment readiness courses, with a first course launched in Kingston in November 2014. To date, the program has provided training and mentorship to eight Jamaican entrepreneurs.
- The Jamaican Scientific Research Council (SRC), in partnership with the Caribbean Industrial Research Institute (CARIRI) in Trinidad and Tobago, manages the Caribbean Climate Change Innovation Center (CCIC) with the support of a \$1.5 million grant from EPIC in partnership with *infoDev's* Climate Technology Program. To date, the program has funded four innovative Jamaican entrepreneurs with grants ranging from \$32,000 to \$50,000 to develop innovative renewable or clean energy projects.
- The Jamaica Business Development Center (JBDC) offers a broad range of advisory services to MSMEs including business advisory, technical services, marketing assistance, and financial services (small business development loans). JBDC also runs an incubator and resource center (IRC) for start-ups and for existing businesses. The incubator focuses on fashion, craft, and food agro-processing and is currently serving 35 clients.
- The Technical Innovation Center (TIC) at the University of Technology (U-Tech) provides fee-based services and a shared space to about 40 entrepreneurs in IT and IT-enabled services. The incubator has gone through several reorganizations in recent years and is now integrated within the university structure.
- The Branson Centre for Entrepreneurship is an initiative of Virgin's Richard Branson and, based in Montego Bay, does good work with a good team, but the assessment team found the center's expertise to be in microbusiness, not high-growth companies. There is a possibility it could consider expanding the kinds of businesses it supports.
- Start-Up Jamaica is a key element in a strategy developed by the Ministry of Science, Technology, Energy and Mining to help innovators and entrepreneurs in Jamaica and the wider Caribbean to grow their ideas into marketable products and services, thus

contributing to economic growth, increasing employment, and generating foreign exchange. In September 2014, the Jamaican government and the World Bank signed a deal with Oasis500 for seed funding of up to \$30,000 (about J\$3.48 million) for each participant under the Youth Employment in Digital and Creative Industries (YEDCI) project. What's more, California-based accelerator company Devlabs will top the previous funding set by Jordan's Oasis500 to up to \$43,185.40 (about J\$5 million) in cash and business support for each successful local start-up seeking to solve social and economic problems, whether nationally, regionally, or globally.

The number of micro, small, and medium (MSME) firms in Jamaica is relatively large and, despite the efforts of government, a majority report "access to capital" as the greatest barrier to growing their business. The World Bank estimates the size of the sector to be between 100,000 and 200,000 firms, about 80 percent of which lever capital from their personal savings and, or networks (Bank of Jamaica 2008), despite lending of \$7.2 billion to the MSME sector, \$6.2 billion of which originated from the Government of Jamaica via a network of financiers including the Development Bank of Jamaica, MIDA, EXIM Bank, Sagicor Investments, and the National Insurance Fund.<sup>29</sup> Despite these efforts, 73 percent of MSMEs still report "capital" as their greatest needed resource to increase production.<sup>30</sup>

Dialogue with banks and MSMEs respectively reveals an asymmetry in how the problems of MSME finance are perceived, and highlights a critical need for alternatives to bank financing. From the perspective of many small businesses, banks are risk averse and overly bureaucratic, which preclude their lending to the MSME sector. Banks, on the other hand, believe that the majority of prospective borrowers lack the right information because of a high level of informality in the economy. Also, the banks are bound by collateral requirements and other structural impediments that preclude their exposure to uncollateralized MSME firms.

To bolster nonbank financing, the Government of Jamaica, in partnership with World Bank and other public and private sector partners, is working to develop the continuum of funding for entrepreneurs in Jamaica. Regarding venture capital, the Development Bank of Jamaica is seeding the Jamaica Venture Capital Program to provide foundation for a regionally focused venture capital industry. One step below venture investing in the capital stack, the World Bank and the Inter-American Development Bank (IADB) are partnering with the Development Bank of Jamaica to promote an angel investing ecosystem via the assistance of two indigenous groups: First Angels Jamaica (Kingston) and Alpha Angels (Montego Bay). It is envisioned that these angel groups will likely invest between \$50,000 and \$100,000 in individual deals in exchange for an equity position in that company. It is likely that the future investment strategies of angel groups will focus on services rather than technologies, given their backgrounds in traditional industries.

Undoubtedly, the largest risk to the sustainability of both the venture capital and angel investor

initiatives will be quantity and quality of investible deal flow. This deal-flow challenge is not a new one. For example, the Caribbean Investment Fund (CIF), which was initiated in 2000, raised \$40 million and invested \$27.7 million across the Caribbean. The CIF was severely challenged by lack of investible deal flow relative to other investment opportunities, and ultimately returned the remaining capital to investors.

The Jamaica Stock Exchange launched its Junior Market (JM) in 2009 in order to encourage and promote investment in entrepreneurship, thereby creating employment and furthering economic development. The Junior Exchange offers a simplified regulatory framework in comparison to the main exchange. Moreover, a company may raise a relatively “small” amount of equity capital, with a requirement that the total capital raised via the exchange fall between J\$50 million and J\$500 million (about \$450,000 to \$4.5 million). Finally, in an effort to set itself up as a regional exchange and a hub for SME financing, the JM extends listing opportunities to any company incorporated in either Jamaica or within another CARICOM country. Since its creation in 2009, more than 25 companies have listed on the JM, in the process accumulating J\$3.5 billion (about \$30 million) in capital via their initial public offerings.

There is a lack of funding options for companies at the earliest stages of development, and also a dearth of technological options for companies to engage with customers and publicize their engagement with these consumers, as a proof point to attract further financing. The lack of attractive, fundable start-ups might be addressed via a program of small grants (\$5,000 to \$10,000 each) that require clear deliverables. This would enable local angels to take on less risk when investing in local start-ups.

### ***Enabling Environment for Crowdfunding***

#### ***Regulatory Environment***

As in Barbados and Trinidad and Tobago, the utilization of international presale or donation-based crowdfunding websites, such as Kickstarter or Indiegogo, is not restricted in any way by the Jamaica’s regulatory regime.

Equity and debt crowdfunding are subject to existing local Jamaican regulatory controls that govern debt and securities offerings, public solicitation, and qualified investors in a round before having to comply with public fundraising. Development of progressive regimes to accommodate new mechanisms for technology-enabled debt and equity financing is an area of interest for Jamaican government officials. However, this agenda may be viewed in a structured and cautious manner to ensure that local regulatory regimes are appropriate for the unique Jamaican contexts and are interested in understanding the regulatory reform processes undertaken by other countries, in order to undertake a similar process, perhaps in partnership with other Caribbean countries.

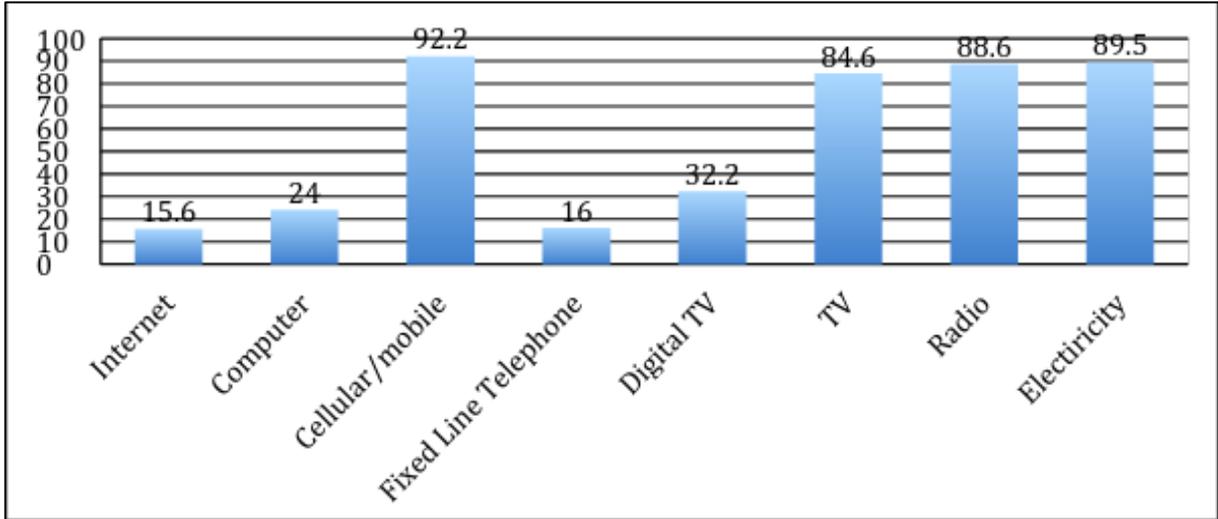
Payment systems regulations allow for mobile money systems in Jamaica, however, these systems must be conducted by a presently regulated Jamaican banking entity. To date a number of remittance companies have shown interest in addressing the payment systems space, but the regulators will need to adapt current policies. The current regulatory regime for payment systems is quite cautious, however, in light of the Foreign Account Tax Compliance Act restrictions, and the perception of high instances of money laundering.

*Technological Environment*

Jamaica has invested steadily in its telecommunications infrastructure,<sup>31</sup> and though Internet usage has grown steadily, the use of mobile phones has grown much more quickly. Currently, mobile phone penetration is 110 percent, and over 50 percent of people with mobile phones have smartphones. Jamaican social media experts note that many with smartphones do not have data plans, but rather connect with available Wi-Fi networks. Thirty-eight percent of Jamaicans use the Internet, which is broadly in line with countries at a similar stage of development. Household Internet use, however, is only at 15.3 percent. Mobile phone use is of average popularity, with 102 mobile plans for every 100 people and is about the same as the world average of (105.18 per 100 people).

**Access to the Internet by Jamaican households is set to expand with further investment by the Jamaican government.** The Jamaican Ministry of Science, Technology, Energy and Mining will leverage technical assistance from the United States to promote the development of Internet services in rural areas by reallocating unused TV band spectrum. So-called TV white spaces, which are unused bands between TV channels, will be utilized to provide wireless broadband signals in rural parishes, the *Jamaica Observer* reports.<sup>32</sup>

**Figure 5.1. Household Access to Communications and Media Technology in Jamaica, 2011**

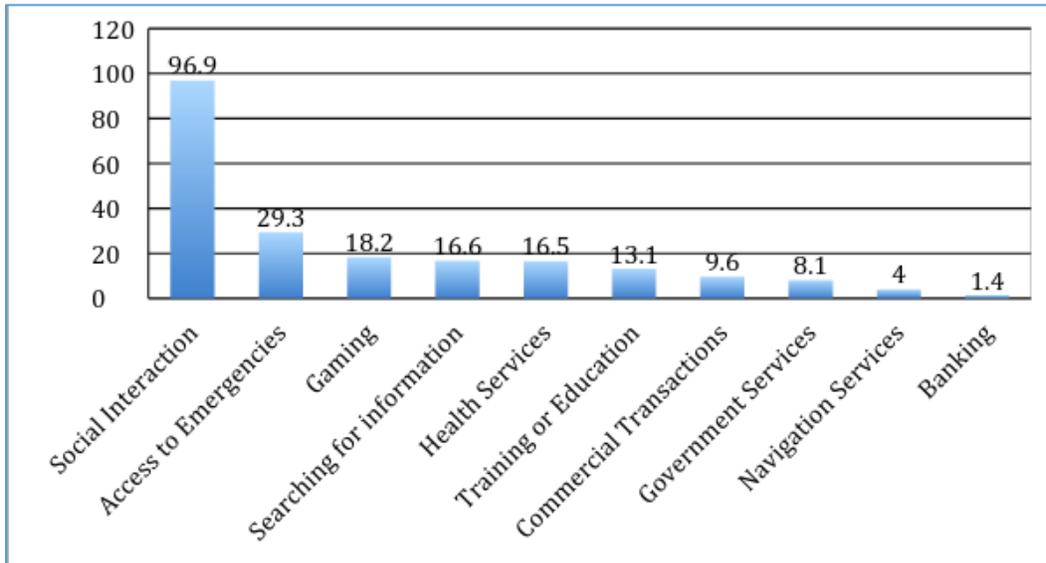


Source: Hopeton Dunn, Caribbean Broadband and ICT Indicators Data Sheet, Jamaica, 2011

*Social Environment*

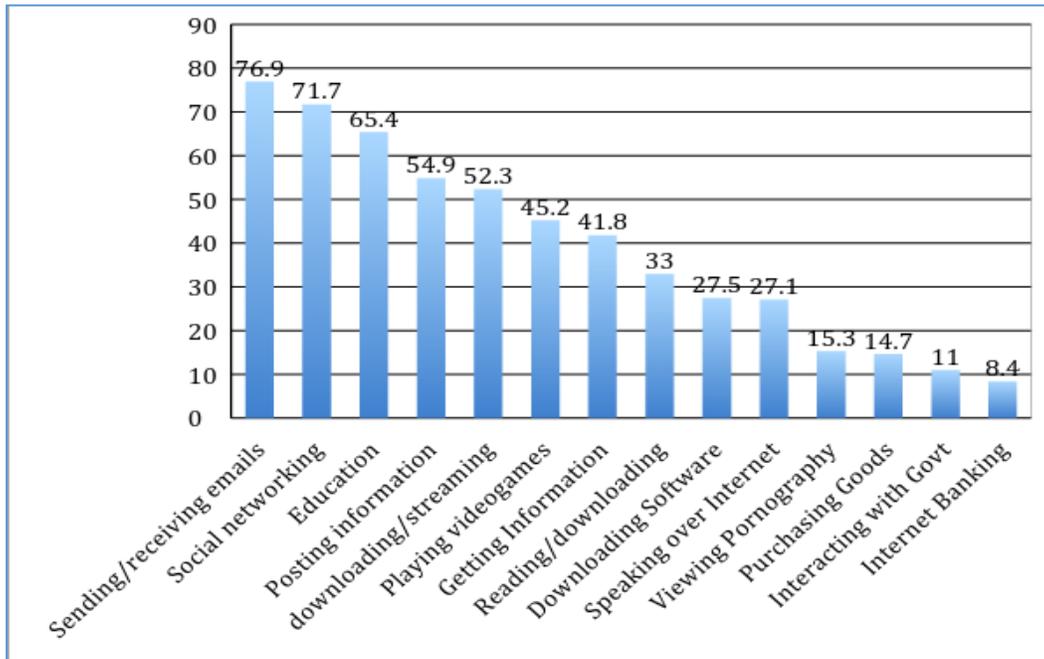
**Jamaican culture is proudly creative, social and affable, characteristics that are borne out by Internet usage by Jamaicans.** About a quarter of all Jamaicans have Facebook accounts and are active online (Forbes 2012, 3). To date there is no data on the prevalence of Twitter among online Jamaicans, although anecdotal evidence suggests that the Twitter community is growing on the back of young, educated, and progressive individuals who use online technologies on a regular basis in their daily lives. LinkedIn penetration remains low. This is interesting in the context of how social media is utilized and may speak to the purely social utilization of online platforms rather than thinking about these tools and services in the context of creating an individual professional profile or brand, building a business, making connections for commercial needs, and so on.

**Figure 5.2. Mobile Phone Usage in Jamaica, 2011**



Source: Hopeton Dunn, Caribbean Broadband and ICT Indicators Data Sheet, Jamaica, 2011

**Figure 5.3. Household Internet Usage in Jamaica, 2011**



Source: Hopeton Dunn, Caribbean Broadband and ICT Indicators Data Sheet, Jamaica, 2011.

In contrast to the uptake of the Internet for social interactions, the use of the Internet for buying and selling of products and services is low. As previously mentioned, selling via social media has not become a trend (most probably because of payment issues). Online payments are difficult and utilization is low. This could be a combination of factors including technology issues related to the lack of infrastructure and, or the social/cultural issues of lack of trust in online transactions or in transactions with unknown parties. A significant recent development is the availability of U.S. retailers Macy's and Nordstrom to ship directly to Jamaica. Before, individuals had to have goods shipped to a U.S. address that would resend to Jamaica. Amazon also now ships directly to Jamaica.

Local Jamaicans' use of the formal banking sector has not reached a critical mass that could be tapped to support crowdfunding in the country, though this is growing. About one-third of the adult population do not possess a bank account and must use cash or nonbank payment outlets; although about two-thirds do have a bank account, their banking usage remains basic with a minority accessing payments and remittance services. Only 12 percent own money transfer accounts, checking accounts and credit cards. Because few Jamaicans have access to the Internet at home, data suggest that the majority of banked Jamaicans cannot use their savings accounts to make payments and remittances. In sum, 78-86 percent of adult Jamaicans have limited access to low-cost, safe, payments channels (Elliott 2011).

In addition to low e-commerce and banking participation, Jamaicans are distrustful of those outside of their immediate social and professional networks, especially for the purposes of fundraising. The origin of this mistrust is difficult to pinpoint, although public mistrust has been exacerbated by the widespread notoriety of multiple “pyramid schemes” over the past decade. A number of respondents interviewed expressed the view that entrepreneurial communities and their personal networks may be prospective first movers for the adoption of e-commerce mechanisms, including crowdfunding, but a local Jamaican business practice or model to bridge the gap in trust has not yet surfaced. It is likely that this first adoption will require a beta test in order to establish an initial success story.

Given the unpreparedness of local populations to engage in crowdfunding, the Jamaican diaspora is often regarded as a ready source of capital, although the issues of trust, logistics, and economics are prohibitive. According to the Ministry of Foreign Affairs, there are multiple pools of diaspora contributors, but they must be tied to funding opportunities via trusted networks, such as the Old Boys and Old Girls networks for high schools and colleges. So far, however, these types of networks have been accessed in an ad hoc manner only for a few projects. Logistically speaking, the ability to market effectively to diaspora members has proven elusive for Jamaican projects and firms and crowdfunding platforms (see Jamaica National Building Society discussed below), despite some outlying success stories (see Jamaica Bobsled team also discussed below). Economically, most first-movers in embryonic crowdfunding ecosystems have offered consumer-facing products with presale of their products, or rewards-based campaigns that offer a token gift in return for contributions, that will be shipped to campaign backers. Supply chain costs seriously impede the ability of Jamaicans to execute this type of campaign, questioning whether diaspora should be the initial target of crowdfunding efforts by Jamaican entrepreneurs.

### ***Crowdfunding Status***

The enabling environment has given rise to a crowdfunding ecosystem in Jamaica where a small set of outliers have successfully leveraged internationally-based platforms, but the majority of Jamaica-based efforts to harness the crowd, with a particular focus on diaspora, have experienced little activity.

The most successful Jamaican crowdfunding campaign was run by the internationally recognized Jamaica Bobsled team, based in New York State in the United States. The team utilized a multiple-platform approach between Indiegogo, Crowdfunder (including cryptocurrency) in order to fund their participation in the 2014 Winter Olympic Games in Sochi, Russia. On the Crowdfunder platform (now simply known as Tilt), the team raised \$130,000, with a 2.5 percent fee on the total, and a three percent fee on credit card contributions. The average donation was \$34.60, with nearly 3,000 individuals contributing to the campaign from 50 U.S. states and 52 countries. Interestingly,

\$30,000 of their Crowdfunder campaign was amalgamated in the form of Dogecoin, a cryptocurrency similar to Bitcoin. The cryptocurrency fundraising incurred no base fee and less than one percent transaction fee. Dogecoin was exchanged for a fiat currency, presumably U.S. dollars, and contributed to the Crowdfunder campaign. In addition, the Jamaican bobsled team conducted an Indiegogo campaign to raise an additional \$55,987 from 1,546 people in four days. Indiegogo charged a four percent base fee on their successful campaign. The bobsled team campaign was certainly a unique example given their notoriety with a vast number of young people internationally.

The Jamaica National Building Society (JNBS) launched a peer-to-peer lending platform to support projects and companies in Jamaica. However, the effort was unsuccessful at generating significant contributions and was relaunched as a contributions crowdfunding site, now currently in operation. The effort built initially from JNBS's significant remittance business after the bank observed some instances of informal pooling of remittance monies for social causes. JNBS' contribution crowdfunding site was intended to expand their potential offerings to also include grants. Unfortunately, the platform experienced extremely low contribution levels and the website was taken offline during its initial phase. This led to the idea to launch a unique crowdfunding website, ISupportJamaica for rewards-based crowdfunding. This site is now live and working to build traction.

A second Jamaican platform is the Jamaica Diaspora Connect portal, an initiative by a mixture of public and private institutions, including the Ministry of Foreign Affairs and Foreign Trade, Jamaica National Building Society, JAMPRO, and the Jamaica Tourism Board. The platform is intended to communicate with diaspora, and to serve as a connecting mechanism between the knowledge, networks, and financial resources of diaspora with three cohorts: (i) projects, (ii) institutions, and (iii) diasporic groups. Regarding projects, the portal indicates that it has raised J\$107,000 (about \$1,000) from 15 donors for unspecified projects on the platform. The platform database includes 42 projects in various areas, including education, skills training, youth development, community development, and crime reduction/prevention. It is unclear from the portal how the fundraising and, or talent has been utilized by the projects on the website. Regarding institutions, the portal has raised capital from one donor for a total of 17 institutions associated with education, skills training, community development, youth development, parenting, crime reduction/prevention, vocational training and certification. Regarding diasporic groups, the portal lists 117 groups across the United Kingdom, United States, and Jamaica, but without any representation from Canada or other countries. The groups are a mix of private diaspora support companies, interest groups, and associations. Again, it is unclear from the platform whether these entities are available to solicit donations as well through the platform or indirectly, and how they have benefitted from the networks and expertise of diaspora. Finally,

the portal contains a repository of knowledge and information resources relating to diaspora-related issues, including a research library, catalogs of case studies and best practice, a document library, and archives of the human-interest stories that have been featured on the portal's homepage.

## **Trinidad and Tobago**

### ***Overview***

Trinidad and Tobago has an evolving entrepreneurial ecosystem that has begun to work collaboratively in its development. It is becoming more organized and interconnected and now it needs the financial infrastructure to provide better access to finance options for start-ups and traditional SMEs.

Trinidad and Tobago is culturally a richly diverse nation with some of the best infrastructure in the Caribbean. It has an economy driven by petroleum and natural gas, and is now the largest source of natural gas imports to the United States. With a population of over 1.2 million and GDP of over \$43 billion in 2014, it is one of the top 50 countries in the world for per capita GDP (\$15,760 in 2013), with a GDP growth rate for 2014-2017 is forecast to rise from 2.1 percent to 2.6 percent per year.<sup>33</sup> It is also forecast that the current account ratio to GDP growth will reach 10.3 percent for 2015, the strongest in the region World Bank 2015, Chapter 2). In 2015, Trinidad and Tobago's Ease of Doing Business ranking improved from 91 in 2014 to 79 in 2015, with significant portions of this gain coming from the reforms in making it easier and faster to start a business and in standardizing the process for resolving insolvency.<sup>34</sup> However, while many of the processes to register, incorporate, and start a business in Trinidad and Tobago are now possible to complete online, currently it is not possible to pay for these services online with a visit to the offices in Port of Spain required to pay business fees.

**Trinidad and Tobago's key industries are oil and natural gas, trade, and tourism.** Natural gas and related petrochemical industries make up over 70 percent of exports. While this had positive benefits for the economy in terms of macroeconomic growth rates, the relative certainty attached to investing in the petroleum industry has increased the "risk capital void" in funding for SMEs and higher risk start-ups. This strength in the economy of petro-products and large multinationals has stifled growth in other sectors of the economy. While there is a successful banking sector, it is primarily focused on lending to large companies and does not provide significant capital to SMEs. Further, from meetings with entrepreneurs, investors, and other stakeholders in the country, it is apparent that there is a low appetite for risk in general in the country, and especially in terms of business risk.

The unemployment rate in Trinidad and Tobago in 2014 was about 3.3 percent,<sup>35</sup> lower than in

many other Caribbean nations. While youth unemployment rates have shrunk over the past 15 years (from a high of 23.2 percent in 2000, to 12.1 percent in 2011),<sup>36</sup> youth unemployment is still being addressed to strengthen not only workplace readiness for young citizens but also long-term development of the entrepreneurial ecosystem. If more SMEs are able to grow, they may need to create more jobs for younger workers.

Mobile phone adoption in Trinidad and Tobago stood at 141 percent of the population in 2013, while Internet access in the home stood at 45.54 percent, and mobile Internet subscriptions has reached 30.6 percent of the population, and were rising.<sup>37</sup> Anecdotal evidence indicates that many people in Trinidad and Tobago choose to use free Wi-Fi locations, rather than pay for a mobile data plan, for their web messaging, social media, and general Internet usage. According to research conducted in 2012 on the affinity citizens of Trinidad and Tobago have for their mobile devices, 69 percent of respondents had only positive feelings, compared with 90 percent of Jamaican respondents, and 80 percent of U.S. respondents (Forbes 2012).

### ***Entrepreneurship Ecosystem Assessment***

Trinidad and Tobago benefits from a variety of both public and private sector actors that are working to stimulate entrepreneurship as a career that is seen as desirable. These actors are also supporting the development of investable companies that are creating unique solutions that have the potential to grow both across the region and on to larger markets. Some examples of these organizations and facilities include:

- University of Trinidad and Tobago Incubator: This well-equipped facility provides both onsite incubation and acceleration as well as “virtual incubation” services. They are also focused on helping connect the classroom to the real world and translating theory to application. Expanding access to capital through crowdfunding and connectivity to angel investors, hours of operation and onsite programming were discussed as areas of interest. Potentially there could be collaboration between this accelerator other private sector entrepreneurial activities.
- Microsoft Innovation Center/Caribbean Climate Innovation Center/mLab/CARIRE: This large campus of facilities has programming, partnerships, and equipment to support a significant number of entrepreneurs. They have also created three-step transparency tools to manage projects and entrepreneurial spending of grant or investor money.
- Launch Rocket: This entity organizes and runs Trinidad and Tobago’s Startup Weekend events twice a year in Jamaica, holds monthly Startup Grind speaker and meet-up events, as well as F-Nights, an event focused on celebrating and learning from failure. They have over 900 people on their mailing list for events, with about 100 attending Startup Weekends and about 60-80 attending a Startup Grind event. Winning a Startup Weekend

energizes the winning team, but if they cannot get funding, which is invariably the case, work usually stops on the project or company. It may be that some form of physical or face-to-face encounter may be combined with online fundraising for it to be successful in Trinidad and Tobago, and the Caribbean more generally. This kind of hybrid approach may be worth experimenting with as part of future potential interventions. There is also scope to increase media coverage, for although the media have covered Startup Weekends, it has not covered other events. Additionally, while there are two incubators in Trinidad and Tobago, there is no co-working space in Port of Spain or Trinidad and Tobago today, and neither of the incubators are located in the center of Port of Spain. Launch Rocket believes that it would be possible to create a co-working space in central Port of Spain that required members to pay a small fee to join to support the costs of security, Internet, and other basic needs. This would enable entrepreneurs to have a facility that would provide round-the-clock access, which would be unique in the country. Launch Rocket would also like to create a unique educational focus on finding investors rather than grants.

- InvesTT Trinidad and Tobago (ITT) is part of the Ministry of Trade, Investment and Communication and they currently have over \$3 billion in deals in their pipeline, including a deal for the largest data center in the Caribbean. It focuses on nine sectors: clean technologies, agriculture, manufacturing, energy, ICT, maritime, downstream energy, and creative industries. ITT works with businesses to build and validate business models before they go to investors, and then seeks both foreign and domestic investment. While it has some limited experience in bringing high net worth investors together on initiatives, there are no formal angel groups in Trinidad and Tobago.
- The Ministry of Planning and Sustainable Development has adopted a national competitiveness policy, launched an innovation challenge focused on social innovation, and has completed an entrepreneur directory for the ecosystem. However, most innovative companies are in the energy sector, are relatively large and use their own capital to grow. The government had a grants program but it was closed because of the lack of interest from entrepreneurs. In 2012, the ministry launched the “idea2innovation” (I2I) program, focused on creating new companies and stimulating innovation. So far 145 companies have received grants totaling TT\$14 million (about \$2.2 million), with over three-quarters of them having completed proof of concept for products. An example of a successful entrepreneur is the creator of Chai Rum, which is now being widely marketed. Interviews within the ministry indicated the need for a post-incubation funding source for risk capital of TT\$2.5 million (about \$400,00) that could be used to fund deals, for example, for winners of Startup Weekend or other post-incubation activities conducted by public or private entities.

- The Ministry of Labor and Small and Micro Enterprise Development is considering how best to create collaborative funding mechanisms between angels and crowdfunding whether in sequence or in parallel. There is also an innovative proposal being considered by the ministry that for every TT\$80 an angel invests, they would receive a TT\$20 tax credit, and in addition the government would provide a further TT\$20 in capital investment in the deal. This would significantly lower the risk and support the investment, and would help to channel public funding that is already allocated for SMEs, directly into their hands. It might also be possible to include the country's current incubators and accelerators in this kind of program to help increase access to investment by start-ups using these organizations.

**Finding funding sources for SMEs and start-ups is challenging in Trinidad and Tobago.** Although it is building a track record for large deals, it has an acknowledged gap in creating smaller financing deals for SMEs. The gap exists mainly because there is little desire for larger investors to invest in smaller start-ups and SMEs, even though there is significant liquidity in Trinidad and Tobago's market (for example, there is an estimated \$11-14 billion in high net worth (HNW) accounts in the banks in Trinidad and Tobago. However, investors here are accustomed to the "guaranteed" results that investing in oil has delivered in the past. The market needs technology to more easily evaluate and invest in new opportunities. Investor expectations are that funding a start-up takes one or two rounds of funding to become profitable, and typically total investment might be expected to be in the range of TT\$2-6 million (about \$315,000-945,000). Typically, such an investment would come from a single company, or from between one and three individuals.

As discussed above, there are several government-funded grant opportunities for entrepreneurs in Trinidad and Tobago. While grants have been widely used to help entrepreneurs to start businesses, their long-term success rate in building sustainable businesses is not yet clear. Today, individual angel investors in the country make their investments privately via their own social networks. However, while there have been attempts in the past, at the time of writing, there have been no angel investing groups or networks successfully created in Trinidad and Tobago. There is no consensus as to why this is the case. Traditional venture capital does not exist in Trinidad and Tobago at this time.

### ***Enabling Environment for Crowdfunding***

#### *Regulatory Environment*

As in Barbados and Jamaica, the utilization of international presale or donation-based crowdfunding websites, such as Kickstarter or Indiegogo, is not restricted in any way by Trinidad and Tobago's regulatory regime.

The Trinidad and Tobago Securities and Exchange Commission (TTSEC) has begun to study

crowdfunding through World Bank, IOSCO, and other research materials. There is currently no TTSEC schedule for formally considering crowdfunding regulation. The TTSEC would need to determine the changes to current regulations needed, the new regulations that would be required, build a supervisory framework as well consider how cross-border transactions would be enabled and monitored and how Anti-Money Laundering regimes would be followed. In 2011, the TTSEC created an SME stock exchange and incentivized companies by providing a 10 percent corporation tax rate for those companies that listed on this exchange. As of 2012, 15 companies had listed on the exchange, and the TTSEC indicated that there were 10-20 listings per year. Take up is low because, culturally in Trinidad and Tobago, most SMEs are family-owned businesses and are considered to be very private. Listing these companies, even on an SME exchange, would be problematic for many families as the accounting systems they use are informal, and the listing process might expose the owners to larger tax disclosures and payments. For these reasons, there are more loan transactions than equity transactions.

### *Social Environment*

Interviewees explained the challenges they saw in the ability of Trinidad and Tobago to incorporate crowdfunding into their ecosystem. Common concerns that were expressed included: trust between people, low usage of online payments and credit cards, and infrastructure challenges for domestic and international money transfer. While this is a warm and engaging culture with a rich history, it was expressed many times that Trinidadians prefer not to try new things unless others that they know have tried it first, and the culture also reinforces the need to succeed, but not by too much.

### ***Crowdfunding Status***

Owing to the regulatory and cultural issues, there have not been a large number of successful campaigns that have originated in Trinidad and Tobago. Kickstarter research indicates that there has been one successful campaign that raised \$10,300 from 48 backers for a documentary film project.<sup>38</sup> There have been six other campaigns that were unsuccessful in reaching their campaign goals, and therefore did not receive any funds. The combined goal of these six campaigns was \$125,000 and the total pledged towards those campaigns was \$3,212, with about 45 percent of that total coming from one campaign. This would indicate that the majority of the campaigns were launched with no marketing or promotion plan and execution. All but one of these campaigns were arts-related projects. Globally on Kickstarter, as of the writing of this report, the success rate for campaigns is 37.5 percent<sup>39</sup> On Indiegogo, there were a total of 14 campaigns and two were successful in reaching their fundraising goals (a total of \$7,200). The remaining campaigns received pledges of \$56,720 on a combined goal of \$ 740,000. All but one of those campaigns were “flexible funding” campaigns, meaning that the campaign owner was able to keep whatever money they received. The data from these campaigns demonstrates similar characteristics as the Kickstarter campaigns. Fundraisers were not able to find an

audience for their campaigns because of a lack of marketing and promotion and, or mismatch in interests in the campaign itself. It also indicates that on average these Indiegogo campaigns were attempting to raise \$36,000. Global Success rates on Indiegogo are estimated to be 20 percent.<sup>40</sup>

## **Saint Lucia**

### ***Overview***

Saint Lucia, like other islands of the Eastern Caribbean, faces challenges in creating entrepreneurial capacity and expanding export capacity to ensure a vibrant economy. While there are thriving tourism and hospitality industries, as well as real estate development for those industries, the government wants to ensure that they are also building a strong and growing private sector among diversified industries. At the same time, culturally, trying new things that fail can be disastrous for one's reputation and being "too successful" has been looked down on historically. A lack of financing options for SMEs in the past has driven the government and banking sectors to create new financing programs in the past few years to support entrepreneurship and small business development.

Key industrial sectors, according to the *Compete Caribbean Report*, are all in the services sector including tourism, wholesale and retail trade, and construction. In 2010, the services sector accounted for 80 percent of GDP. Although bananas remain Saint Lucia's largest export, agriculture's contribution to GDP has declined significantly in recent years (Compete Caribbean 2013b).

According to Saint Lucia's Central Strategic Office data, the unemployment rate in Saint Lucia during 2013 was about 23 percent.<sup>41</sup> MSMEs are the major driving force of the economy in Saint Lucia with 77 percent of businesses employing five or fewer people, and only one percent of firms employ over 50 people (Compete Caribbean 2013b). The labor force was estimated to be just over 93,000. While individuals are able to start businesses, gaining access to finance to develop those businesses beyond five employees is a significant challenge. The Saint Lucia Development Bank, The Trade Promotion Export Group (TIPA), Invest Saint Lucia, and the Ministry of Commerce, Business, Investment, Development and Consumer Affairs, are all working to address the challenges of enabling entrepreneurs with skills, finance, and export opportunities.

### ***Entrepreneurship Ecosystem Assessment***

Saint Lucia's entrepreneurial ecosystem is at an early stage of development and needs additional capacity building and program development. Leaders in Saint Lucia are focused and committed to developing this infrastructure and would benefit from programming to support their efforts. While there are some financing tools available for entrepreneurs, ensuring that entrepreneurs know they are available, know how to access them, and then once they receive the funding, are

adequately skilled to know how to fully leverage these facilities are areas of opportunity. All enablers that were interviewed as part of the research for this study expressed interest in new financing tools and specifically crowdfunding as a way to help entrepreneurs get started and for existing SMEs to grow. These development organizations meet some of the talented entrepreneurs in Saint Lucia and could be good ecosystem partners to leverage their knowledge and expertise in future SME finance pilot projects on the island. Some example facilities include:

- Saint Lucia Development Bank is focused on clean and green energy, agribusiness, mobile technology, and women's entrepreneurship and works with incubators across the Caribbean. It has created a loan fund that can be used by start-ups and SMEs, with the term of the loans being 15 years.
- The Saint Lucia Development Bank has also created a Your Enterprise Fund, which acts as a proxy for a venture capital fund. It can invest up to \$50,000 in each company.
- The Trade Promotion and Export Group support entrepreneurs with skills development to make them ready for the export market. While it does not provide funding directly, it works primarily with agribusiness producers to help them improve quality and consistency so they become "great products that are ready for export."
- Saint Lucia's National Competitiveness and Productivity Council is creating a Productivity and Competitiveness fund for SMEs that will grant up to EC\$100,000 (about \$37,000) to be used for expanding operations or improving the efficiency of operations in an existing business.

Despite these efforts, some entrepreneurs in Saint Lucia have not been able to access these entrepreneurship development programs effectively. Some of the concerns expressed include the fact that the processes for application were cumbersome and time consuming or those funds were difficult to access. These challenges exist in many countries. There can be mismatches between expectations regarding what constitutes a full "due diligence" process. At the same time, there are also mismatches regarding expectations of how to select "the right entrepreneurs."

There are opportunities for the Government of Saint Lucia, in partnership with World Bank and other public and private sector partners, to develop a more transparent and efficient continuum of funding for entrepreneurs in Saint Lucia. Currently there are no angel investment groups or venture capital funds in Saint Lucia. The Saint Lucia Development Bank provides some early stage capital to youth entrepreneurs that may serve as a proxy for angel investing. The opportunity also exists for enablers in Saint Lucia to collaborate to work with schools to teach the importance and value of entrepreneurship, helping students to think imaginatively, to experiment, and to learn that failure are all important parts of building a successful business.

In conversations with founders of successful companies in Saint Lucia, all identified their struggle

to start their businesses and their experience of having nowhere to turn to for start-up capital save for their own limited resources. Marketing their businesses or demonstrating their early successes was also a challenge. There are opportunities to create grant or matching grant facilities for “proof of concept” or “first customer funds” to allow new entrepreneurs with a community of support behind them, to gain access to funds that can support experimentation and best efforts to start a business. It would be important also that entrepreneurs who use this facility and fail, should be able to use this facility again, as long as they continued to be able to demonstrate a community of support behind them.

### ***Enabling Environment for Crowdfunding***

#### *Regulatory Environment*

Similar to the other countries studied, Saint Lucia’s regulatory regime does not restrict the utilization of international presale or donation-based crowdfunding websites, such as Kickstarter or Indiegogo.

Equity and debt crowdfunding are subject to existing local Saint Lucian regulatory controls that govern debt and securities offerings. The government would need to understand the regulatory reform processes undertaken by other countries in order to undertake a similar process, perhaps in partnership with other Caribbean countries.

The development of robust payment systems, e-commerce, online payments, and money transfer systems (that could include mobile money) would be a benefit to the ecosystem in Saint Lucia. This could mean developing a regulatory regime that could be created as a common standard across the Eastern Caribbean to support a more liquid and efficient market. Anti-Money Laundering and Know Your Customer (AML/KYC) requirements in Saint Lucia are in accordance with global best practice and any new payment mechanisms must consider these policies.

#### *Technological Environment*

Saint Lucia has invested steadily in its telecommunications infrastructure, and now has 4G mobile networks across the island. This, along with the availability of lower cost smartphones, drove mobile phone penetration to over 120 percent of the nation by 2013.<sup>42</sup> Saint Lucian social media experts explained the widespread use of Facebook, Twitter, and WhatsApp, while Instagram and LinkedIn appear to have much lower usage rates. Saint Lucia’s fixed line Internet penetration was less than 15 percent of homes in the country, while about 22 percent of the country’s homes had fixed line phones at that same time.<sup>43</sup>

There are currently no online technologies or services to help connect entrepreneurs with investors or enabling organizations. The enablers in Saint Lucia could consider ways to leverage

existing web technology to address the issue of how to communicate regarding their programming and provide potential investors (both local and diaspora) with the ability to meet entrepreneurs and review potential investment opportunities.

### *Social Environment*

**Saint Lucia has a well-deserved reputation as being a warm and welcoming culture.** In business however, many individuals expressed the lack of trust between individuals in business transactions and a concern about trying new things. People look for examples of success and in teaching new concepts, it was strongly advised to teach by using “the power of example.”

While making photos and opinions available online via social media is popular, e-commerce is currently not possible in Saint Lucia. Today, businesses must go to great lengths to gain access to a merchant account or a proxy for a merchant account. Many financial transactions require paper forms and face-to-face interaction. There is low trust in online financial transactions, some of which may be because of a lack of experience in these transactions. A positive development in this area occurred in September 2014, when Saint Lucia’s 1st National Bank launched its mobile banking application for basic services including “buddy payments,” which allows for individual-to-individual money transfer between two customers of the bank. The service is not, however, available customers who use different banks.<sup>44</sup>

Local Saint Lucians do not use the formal banking sector in a critical mass that can be tapped to support crowdfunding in the country, though this is growing. Sixty percent of the adult population do not own bank accounts and must use cash or nonbank payment outlets (Chaia et al 2009).<sup>45</sup>

While local citizens are not currently equipped to fully utilize crowdfunding, there is a general sense in the country that their diaspora may be willing participants in these activities. Even with this strong belief in the diaspora as a source of capital for investment, there were no strong examples given, beyond traditional remittances for essentials and education, of diaspora engagement in investment opportunities. It is likely that trust and transparency tools would need to be created and utilized to provide prospective diaspora investors the ability to execute essential tasks in making investment decisions.

### ***Crowdfunding Status***

To date, there are no crowdfunding platforms (rewards-based, equity-based or debt-based) or related technologies functioning in Saint Lucia. Enablers in the country could consider how to leverage a regional platform as a low cost and efficient way to experiment with crowdfunding.

One successful Saint Lucian crowdfunding campaign was run by a well-known media personality

in Saint Lucia to raise money for a documentary on fatherhood in the Caribbean. The campaign raised over \$9,000 for the film project, *Everyday Heroes*, and had 63 backers that contributed between \$1 and \$1500 each.<sup>46</sup> No other examples of successful local campaigns were identified during the research for this study.

**For crowdfunding to gain traction in Saint Lucia, gaps in financial technology would need to be addressed.** There is no e-commerce infrastructure on the island. Receiving a merchant account from a bank is expensive (transaction fees of 7-10 percent). Use of PayPal is possible but only with significant workarounds (requiring the business to secure a U.S. bank account) that are expensive, and PayPal holds the merchant's money for four weeks. There are automated clearinghouses in place for payment processing, but currently SMEs and entrepreneurs do not have access to them. The Caribbean Credit Card Corporation controls all electronic clearing for financial transactions in the Eastern Caribbean. Electronic Clearing House transactions have only been possible since February 2015.

## 5. The Caribbean Diaspora

The Caribbean diaspora is considered to be large and engaged in their home countries and region via a network of family, friends, businesses, school and community groups, and governmental outreach initiatives. However, the size of a country's diaspora, its engagement in its home country, and its attitudes can vary from country to country. In interviews during the field work for this report, many interviewees raised this issue and the potential power of engaging the diaspora in more than remittances for family needs, expanding those capital flows into investments in existing or early stage businesses.

Recent research by *infoDev's* EPIC unit, *Investing Back Home: The Potential Economic Role of the Caribbean Diaspora* (World Bank, 2016), provides informative data to contextualize how the diaspora may fit into crowdfunding's possibilities in the Caribbean. The key findings of the report are summarized below:

- Reliable data is limited, making accurate measurement challenging, nevertheless, the Caribbean diaspora is believed to be one of the largest and most highly skilled in the world. Governments could benefit from changing the nature of some of those capital flows from remittances to investment.
- According to the World Bank's Data Bank, as of 2013, the Caribbean had a population of 17,346,429. The total estimated diaspora is 5,930,850 who were born in the Caribbean and then migrated to another country. These estimates were obtained from combining estimates from the United Nations Population Division and the Jamaica Diaspora Institute (for Jamaica's portion of the total).<sup>47</sup>
- The diaspora has settled primarily in three countries: the United States (about 66 percent); the United Kingdom (about 14 percent); and Canada (about 10 percent); and the rest of the world (about 10 percent).
- In total, in 2012, Caribbean remittances totaled \$7.25 billion, according to the World Bank's Bilateral Remittances Matrix.<sup>48</sup> The totals for the four countries targeted in this research was: Jamaica (\$2.1 billion, 14.6 percent of GDP); Trinidad and Tobago (\$126.1 million, 0.5 percent of GDP); Barbados (\$81.9 million, 1.9 percent of GDP); and Saint Lucia (\$29.2 million, 3.7 percent of GDP).
- According to the World Bank's 2013 diaspora investment survey (Dhanani, et al, 2013), less than 10 percent of the Caribbean diaspora qualify as "accredited investors" according to the U.S. definition, that is investors with over \$1 million in liquid capital to invest. The other 90 percent would be classified as retail or "unaccredited investors," with the majority having less than \$250,000 in liquid assets to invest.

- According to a Caribbean diaspora survey, the primary ways in which the Caribbean diaspora engages financially with the community “back home” were (World Bank, 2016):
  - Send money to family and friends – 47 percent
  - Donate money to charities/nonprofits – 32 percent
  - Donate money to alma mater – 17 percent
  - Invest in Caribbean stock market offerings – 7.5 percent
  - Invest in real estate – 23 percent
  - Invest in companies/businesses directly – 13 percent
- The research indicated that the primary reasons for real estate investments were to provide a home in the Caribbean for retirement or for rental income. Investments in companies or businesses were primarily to provide help to relatives or friends and/or to provide additional income in retirement once they move back to the region. The relatively limited engagement in public stock markets is due to their relative illiquidity and paucity of offerings.
- People from the Caribbean who are living abroad can be brought together through shared cultural events (for example, through music or food), affinity groups (for example, alumni networks from schools) and independent economic development initiatives. For some, government-led programs may be viewed negatively, because of concerns regarding transparency and other issues.

With this framing provided by the diaspora research, combined with the research conducted for this report, it is possible to create some perspectives and hypotheses that could be further explored in future research. It is important to note that there are differences in how members of the diaspora engage depending on which country they are from, and engagement strategies should take this into account. Also, different governments and national economic development agencies have unique goals and initiatives that must be considered when creating pilots and conducting further research into this topic.

For example, given the size of the Jamaican diaspora and the large percentage of the country’s GDP that comes from remittances, and the comparative sophistication of the financial system compared with other countries in the Caribbean, there may be an opportunity to create different pilot programs to test different aspects of diaspora engagement (for example, real estate crowdfunding versus SME crowdfunding). Owing to its size and economic strength, the Jamaican diaspora is a key part of Jamaica Vision 2030’s strategic program to create sustainable development and economic prosperity. There are opportunities for Jamaica to augment remittance flows for family needs and property purchases with capital for high quality, transparent investments. These include:

- Collaboration with Jamaica’s International Migration and Diaspora Policy on potential crowdfunding initiatives, as it seeks to mobilize the diaspora to support the Jamaica 2030 Vision goals (World Bank, 2016);
- Crowdfunding pilot initiatives constructed to make it easier for the Jamaican diaspora to invest in SMEs and family businesses in a more transparent, faster, and easier manner; and
- Pilot programs that engage the diaspora via Jamaican school alumni networks and regional associations to create awareness and investor education programs in crowdfunding.

While some may view a country with a smaller diaspora (for example, Saint Lucia) as having limited diaspora investment opportunities, Saint Lucia is an interesting example of one of the most comprehensive strategies in the region for diaspora engagement, which includes benefits for all OECS citizens to return to Saint Lucia and invest in local businesses (World Bank, 2016). In terms of Saint Lucia, there are opportunities to:

- Incorporate crowdfunding awareness building and training programs into the diaspora engagement initiatives;
- Develop crowdfunding pilots to work with the Saint Lucia Development Bank on its Youth Enterprise Equity Fund to support young entrepreneurs and incorporate diaspora members as mentors or co-investors; and
- Develop similar programs to co-invest and support existing SMEs.

During the field work for this report, several individuals expressed a strong belief in the power and value of the diaspora to support crowdfunding in the region. However, the authors have also seen similar optimism in other countries regarding their diaspora populations (for example, Kenya), only to find a significant gap between the expectations of the local population and the diaspora in terms of the execution of financial engagement. The challenges expressed most often by diaspora members were the need for transparency in the transaction and ease of ongoing communication and reporting on the investment. In traditional investments, without the benefit of the Web, social media, video, and geolocation, these were significant challenges. Given the online nature of crowdfunding, it may be possible to more easily utilize these new tools to aid in the due diligence process and ongoing communication and management of investments in the region.

Furthermore, securities regulations in countries such as the United States, the United Kingdom, and Canada limit how foreign companies can solicit those countries' residents for investment. In most cases, there are costly filings that must be registered with the securities regulator in each country. Financial return crowdfunding lowers some of those requirements, but in most cases in the United States, the entity that is seeking investment from U.S. investors (regardless of where it operates), must be a U.S. registered corporation. Further consultation with U.S.A, U.K., and Canadian securities regulators may yield opportunities to access a regulatory sandbox to test a well-constructed pilot program targeting the Caribbean diaspora. Of the countries mentioned, the United Kingdom has the best regulatory sandbox currently in place that may enable more rapid testing of a pilot program. However further consultation with securities officials regarding the exact details of a pilot would be required.

In order to promote diaspora engagement, the following are recommended:

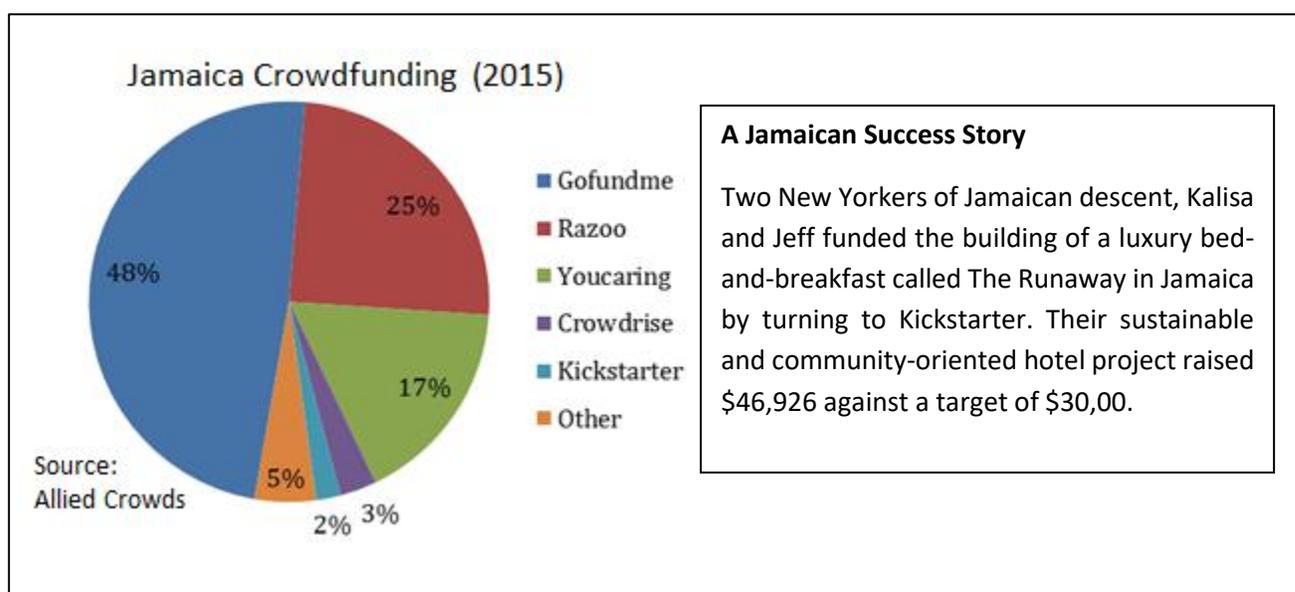
- Provision of basic awareness and understanding of crowdfunding's success in the United States, the United Kingdom, Canada, and Europe and the potential in other countries.
- Building deeper understanding, through educational efforts, of both how to assess and execute effectively investments via crowdfunding.
- Showcase examples of home country success and local investment in crowdfunding efforts.
- Implement diligence processes and communication channels for investing via crowdfunding in the region. Best practices could be transferred from other small states and developing economies as well as developed economies to support this initiative.
- Align early crowdfunding pilots with existing capital flows from the diaspora. This includes exploring both SME and start-up projects as well as real estate projects to test diaspora interest.
- Reduce investment regulatory hurdles for individuals who live in the United States, the United Kingdom, and Canada.
- Strategies to engage accredited, high net worth investors versus retail investors in financial return crowdfunding campaigns for Caribbean businesses.

## 6. Caribbean Regional Assessment for Crowdfunding Ecosystem

Currently, the Caribbean entrepreneurial finance ecosystem is inefficient and opaque, which is commonly lamented by all members of the present ecosystem, entrepreneurs, investors and regulators ((Holden and Howell 2009). For entrepreneurs, fundraising options are most often limited to personal or professional networks, which leave the vast majority of Caribbean entrepreneurs with scarce opportunity to secure capital for their businesses. At the same time, investors are dissatisfied with the limited access to deal flow of companies, and the lack of investment readiness of the companies they are able to identify. Regulators stress their need for data on entrepreneurial finance activities in order to better understand the current status in their country, and develop more effective oversight and monitoring capabilities going forward.

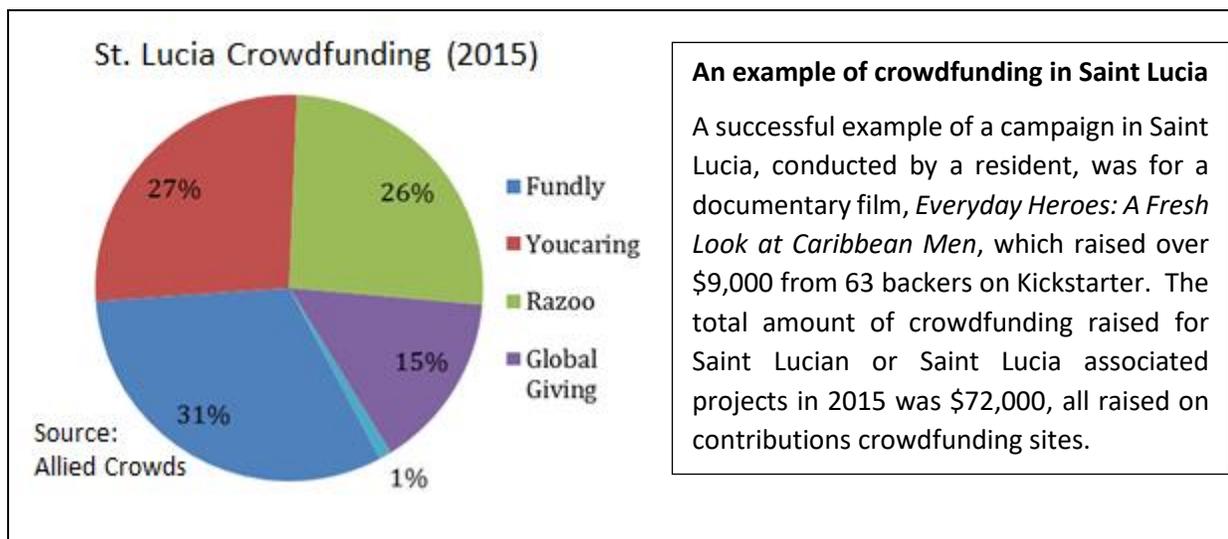
Given this situation, there is potential for crowdfunding to emerge in the Caribbean, with potential benefits for entrepreneurs, investors, and regulators. The study's survey of over 70 stakeholders from the public and private sector in Saint Lucia, Trinidad and Tobago, Barbados, and Jamaica found that, so far, there had been only limited experimentation with global crowdfunding platforms, for example, GoFundMe, Kickstarter, Indiegogo (see Box 7.1 and 7.2). In addition, a small number of nascent crowdfunding platforms have been established in the Caribbean. Boxes 7.1 and 7.2 demonstrate the utilization of nonfinancial return crowdfunding in Jamaica and St. Lucia.

### Box 6.1. Crowdfunding in Jamaica



Sources: Allied Crowds; Eastern Caribbean Central Bank.

## Box 6.2. Crowdfunding in Saint Lucia



Sources: Allied Crowds; Eastern Caribbean Central Bank.

On the positive side, Internet penetration in the Caribbean is strong and growing, and utilization of social media forms part of increasing online engagement. However, among the factors limiting the growth of crowdfunding are infrastructure for online payments and a culture of low trust between individuals, especially regarding online transactions. Additionally, appropriate regulatory frameworks currently are not in place to support securities crowdfunding. Trinidad and Tobago, in particular, has explored the potential for crowdfunding, but all four countries in this study need to enable regulation for crowdfunding and, in some cases, online payments.

## General Financial Market Infrastructure

It is important to frame the discussion regarding crowdfunding technology infrastructure with some brief comments about the general underdeveloped state of financial market infrastructure in the Caribbean. According to the World Bank's 2016 report, *Investing Back Home: The Potential Economic Role of the Caribbean Diaspora*:

- The level of public debt owed by Caribbean countries is a formidable economic challenge which hampers economic development efforts.
- The infrastructure for public securities stock exchanges is fairly illiquid across the region, the most active being Jamaica with 39 firms listed in 2012, and Trinidad and Tobago with 34 firms listed in 2012.
- The Jamaica Stock Exchange has a Junior Exchange for SMEs that had reasonable early success, however, because of debt restructuring programs, some of the key tax incentives

for listing on the junior exchange have been cut by 50 percent, which has lowered applications by new companies to list on the junior exchange.

- While most of the stock exchanges have cross-listing agreements, cross-border activity remains low.
- In the private securities markets, public-private partnerships are underdeveloped because of a lack of policy, guidelines, and staff experience to manage these relationships and investments over time as well as reduced funding availability for these infrastructure projects because of Basel II and Basel III.<sup>49</sup>
- In recent years, there has been only one private equity fund launched in the region (Portland Private Equity, launched in 2008 by Michael Lee-Chin) and the Latin American Venture Capital Association reports that, since 2010, a total of \$299.6 million has been invested in 15 transactions in the Caribbean.
- Early-stage venture capital is very underdeveloped across the region.
- Significant effort has been expended by *infoDev's* EPIC program to develop angel investing groups in the region, beginning with First Angels in Jamaica.

## **Crowdfunding Technologies in the Caribbean**

Caribbean-based crowdfunding platforms currently exhibit low activity. The platforms' largest challenges are lack of quality demand-side projects, lack of supply-side awareness, and restrictions on payments, banking, and communication/transparency services.

### ***Finance Platforms***

The current crowdfunding platforms are as follows:

**Pitch & Choose is a donation-based platform based in Barbados.** Pitch & Choose has a vision to be the primary online fundraising gateway for the Caribbean community, globally, and provides an online marketplace where local and diaspora communities can fund projects through crowdfunding, and create opportunities for the "Rise of the Rest". One example is FundRiseHER™, a platform that was developed in collaboration with the Commonwealth Businesswomen's Network and the Caribbean Export Development Agency and launched in July 2016. FundRiseHER™ is the flagship initiative of Valerie Grant, Founder of GeoTechVision, the Commonwealth Woman Entrepreneur of the Year in 2015 and WINC AP facilitators in Guyana. The two cofounders have a background in the banking and financial services industry. Their focus is on needs-based campaigns and seeks to engage both charitable contributions from diaspora as well as local people in the Caribbean. Founded in 2014 by A. Cecile Watson, Women Innovators Network in the Caribbean Acceleration Programme (WINC AP) facilitator in Jamaica, Pitch & Choose seeks to leverage crowdfunding to attract new flows of capital to the region, and ultimately to create new jobs and drive economic growth. The goal is 1:10:50: \$1 million grant

funding to be raised through a global rewards-based crowdfunding campaign by 10 participating Caribbean countries/territories and Commonwealth member states for the benefit of 50 women entrepreneurs. The size of grants will be between \$10,000 and \$25,000. This platform has launched six campaigns, which so far has struggled to generate a critical mass of contributors from the Caribbean or diaspora communities.

**Barbados is home to VisionFunder, a pioneer in rewards-based crowdfunding in the eastern Caribbean.** VisionFunder launched its platform for rewards-based campaigns in August 2015. VisionFunder has taken a problem-solving approach in an attempt to create a service, within the constraints that exist, in order to prove its model in Barbados, with aspirations to become a Caribbean-wide platform. Initially it is attempting to raise money for Barbadian businesses and when necessary will build partnerships with international partners. In order to address the lack of viable projects, VisionFunder has created its own “train the trainer” program for crowdfunding facilitators to provide a support system for Eastern Caribbean entrepreneurs. These facilitators learn a body of material and gain access to coursework to use in training prospective project owners and develop best practice materials for an annual fee.

**Carilend is a Barbados-based P2P lending platform** based on the UK model in which the platform matches borrowers and lenders. Carilend is currently in a “beta launch” phase of development. The current model is to match lenders and borrowers via interviews. It is possible that, as they build their credit scoring and technology platform, this will become a more automated process.

**The Jamaica National Building Society (JNBS) launched a peer-to-peer lending platform to support projects and companies in Jamaica.** However, the effort was unsuccessful at generating significant contributions and was relaunched as a contributions crowdfunding site, now currently in operation. The effort built initially from JNBS’s significant remittance business after the bank observed some instances of informal pooling of remittance monies for social causes. JNBS’ contribution crowdfunding site was intended to expand their potential offerings to also include grants. Unfortunately, the platform experienced extremely low contribution levels and the website was taken offline during its initial phase. This led to the idea to launch a unique crowdfunding website, ISupportJamaica for rewards-based crowdfunding. This site is now live and working to build traction.

**Some Angel networks in Caribbean are using online platforms (Proseeder Technology) to process deal-pipeline,** but these do not serve as marketplaces for sourcing and executing early-stage equity investments, which would constitute equity crowdfunding. These networks are not collaborating with significant frequency across-borders to share investments. Beyond these angel platforms, there are no explicit equity crowdfunding platforms in the Caribbean. In other markets, Proseeder is an online deal room platform that automates workflows to enable

corporate venture departments and angel groups to become more efficient in their investment process. It puts all documentation in one central location so all parties have real time access, there is tracking of process and communication that may offer easier communication than via email. For example, it is being used by corporate venture groups within major Fortune 500 companies, including Johnson & Johnson and CitiVentures. This use of a standards-based platform to manage deal flow, investment management, investor relations, and so on, may offer exploration opportunities to both business development and corporate venture groups within corporations in the region as well as national development and investment organizations. These explorations may offer lessons that could be applied regionally.

International presale or donation-based crowdfunding platforms, such as Kickstarter or Indiegogo, are restricted by the rules of those platforms, which precludes the majority of Caribbean users. For example, in order to use Kickstarter, a Caribbean company or project must be registered in either the United States, United Kingdom, Canada, Australia, New Zealand, the Netherlands, Denmark, Ireland, Norway, Sweden, Germany, France, Mexico, or Spain. The campaigner must also be 18 years old, a permanent resident and have an address, bank account, and government-issued ID in the originating country. The creator must also have a major credit or debit card. Caribbean individuals are able to access these platforms as long as they meet the banking and citizenship requirements of those platforms. Despite these restrictions, people living in the Caribbean are accessing international platforms. For example, in 2015 Jamaican or Jamaica-associated projects raised \$1.4 million via contributions (98 percent) rewards (2 percent) crowdfunding sites.

Unlike international presale or donation-based platforms, access to international debt and equity crowdfunding platforms are either prohibited or greatly restricted. For all debt crowdfunding sites, such as Prosper.com and Lending Club – both based in the United States – Caribbean companies raising capital are simply not allowed access. These platforms can only grant access to lenders and borrowers who are 18-year-old residents of the jurisdiction in which the platform is registered. Only slightly less onerous, equity platforms, such as the U.S.-based equity platform AngelList, do allow fundraising by non-U.S. start-ups under the condition that they comply with their local regulations and U.S. regulations. Ostensibly, this requires non-U.S. start-ups to register as a corporate entity in the United States, and raise money for the U.S. entity. They must comply with all U.S. securities regulations as if they were operating as a U.S. corporation, in addition to their country of origin. This creates prohibitively expensive fees for the vast majority of non-U.S. companies.

Finally, Caribbean SMEs and entrepreneurs have access to intermediated platforms such as Homestrings, a crowdfunding platform that offers debt and equity positions to both accredited

and unaccredited investors globally. Homestrings is a global platform that relies heavily on established financial intermediaries to source investment opportunities, before conducting in-house diligence and offering these investment opportunities via their online platform. The platform offers an array of funds, treasury bills and bonds to its investor base. The Caribbean region is represented by a member of the board, who brings extensive experience in the region as the former executive of the Caribbean Development Bank. At the time of this report, there was one investment opportunity from the Caribbean on Homestrings (see Figure 7.1).

**Figure 6.1. NiQuan Investment Opportunity on Homestrings**

 <b>HOMESTRINGS</b> COME MAKE A DIFFERENCE ◀ BACK HOME	 <b>NiQuan</b> ENERGY
<ul style="list-style-type: none"><li>- Instrument: A 5 year bond with a 15% coupon.</li><li>- Minimum investment: US \$1000</li><li>- Total Target Round: US \$ 19,000,000</li></ul>	
<p><u>NiQuan Energy</u> converts natural gas into premium zero-sulfur liquid fuels. From next generation Gas-to-Liquid (GTL) project development to total plant operation, <u>NiQuan</u> is changing the way Trinidad and Tobago fuels development.</p>	
<p><u>NiQuan</u> is acquiring 100% assets of a Gas-to-Liquid plant in Trinidad and Tobago, in Receivership. Once fully constructed and commissioned, it will be the first GTL plant of its kind in the Western Hemisphere – producing over 2,000 barrels-per-day of zero-sulfur ultra-clean diesel and naphtha.</p>	

**Payment Systems**

Low usage of online payment systems by individuals and merchants for both sending and receiving of payments is a symptom of many factors contributing to low adoption of crowdfunding in the Caribbean, and one of the foremost barriers to adoption and development of crowdfunding. Specifically, as a Caribbean crowdfunding platform emerges, seeking to solicit contributions or investments from individuals from within the Caribbean region, they face a major challenge to secure a merchant account from their local bank, and face high fees to process orders via international payment processors. For example, PayPal is accepted in Anguilla, The Bahamas, Barbados, Belize, Dominica, Guyana, Jamaica, Montserrat, Saint Kitts and Nevis, St. Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago; however, fees can be significant. As an example of fees in the region, PayPal, charges a currency conversion fee when customers buy from an overseas seller. This comprises of the prevailing wholesale

exchange (the cost of foreign currency as denominated by an outside financial institution) plus a conversion service charge of 4.5 percent.

While the payment systems issue is a critical barrier for some actors, it can be a potential boon for Caribbean banks with cross-regional technological infrastructure and good regulatory standing. This assessment suggests that a regional bank or banks could collaborate with a local crowdfunding platform to overcome payment hurdles. In Saint Lucia, for example, in 2014 1st National Bank launched its mobile banking application for basic services including “buddy payments,” which allows for individual-to-individual money transfer between two customers of the bank. The service is not available customers who use different banks, however, which limits its utility.

For crowdfunding platforms that seek to solicit contributions from outside the region, including the often-referenced diaspora population, there are serious impediments to Caribbean residents receiving such funds. One Caribbean crowdfunding platform, that participated in the survey, highlighted issues related to its access to global payment providers, especially for large payments. There are few global payment providers that service the Caribbean, and those that do are most likely burdened by the laws and various financial controls required for so many independent "small economies". Given the few services available to receive large transactions at Caribbean banks (for example, SWIFT, ACH, Cheque), receiving large cash transfers via card services are problematic because of relatively low holding and transaction limits imposed, this especially includes credit overages on credit cards, which are typically frowned upon by banks.

Conversely, major private Caribbean banks argue that the major impediment to scaling of electronic and Internet banking is a lack of demand from the population. While there are limited numbers of services available online today, even transferring money between two domestic account holder accounts in different banks via an online transaction is not possible. Caribbean SMEs and entrepreneurs voiced great frustration with this situation. Caribbean banking stakeholders maintained that their customers were not using the limited online transaction capabilities they had made available to date via PC-based web services (that is, checking balances and, in some cases, transfers between account holders within the same bank). There is evidence, however, to suggest that mobile banking services may be more likely to gain traction. For example, during field visits it was learned that Scotia Bank launched a mobile application for their online services and had seen significantly higher utilization of services via this mobile app. The mobile device may be seen as a more personal and trusted connection since it is always with the person and used all day. This hypothesis regarding technology adoption via mobile devices is demonstrated in other alternative finance markets, such as China. Should there be interest, it could be a topic for potential future study in the Caribbean.

Regulation pertaining to mobile money services, similar to mPesa<sup>50</sup> in Kenya, has recently been instituted in Jamaica and must be conducted by a presently regulated Jamaican banking entity. For example, the National Commercial Bank of Jamaica launched a mobile money application in August 2016. To date a number of remittance companies have shown interest in addressing the payment systems space, but regulators will need to adapt current policies. The current regulatory regime for payment systems is quite cautious, however, in light of the Foreign Account Tax Compliance Act (FACTA) restrictions, and the perception of high instances of money laundering.

Outside of the traditional payment infrastructure, Bitt<sup>51</sup> in Barbados may offer businesses new options to traditional payment processors by offering a secure digital exchange for both fiat currencies and Bitcoin for the Caribbean market. With its ability to exchange and transfer both cryptocurrencies and fiat currencies, there may be opportunities to explore how these types of exchanges could increase transparent and efficient crowdfunding transactions that comply with AML and KYC best practices. Virtual currencies and their interaction with fiat currencies is an industry that is evolving and innovating rapidly in other regions (for example, use of virtual currencies and services like BitSpark to move remittances between Hong Kong and the Philippines). Ensuring transparency, consumer protection, and collaboration with national and regional financial regulators are crucial in the development of these new practices. Innovation is also taking place that leverages current banking infrastructure (e.g. their ATM networks) for cross border remittances. Companies like Taiwan-based EMQ, partner with traditional banks so that customers can use their ATM networks to send and receive remittances faster, easier and at much lower costs. This demonstrates how traditional banks can potentially benefit from active collaboration in this emerging space. Existing financial ecosystem participants should engage with new online exchanges to learn more and explore ways to offer combined unique service offerings to serve businesses and individuals across the Caribbean.

### ***Wired and Wireless Internet Infrastructure***

**Caribbean governments are incrementally advancing Internet connectivity via mobile and wired connections.** Saint Lucia, for example, has invested steadily in its telecommunications infrastructure, and now has 4G mobile networks across the island. This, along with the availability of lower cost smartphones, drove mobile phone penetration to over 120 percent of the nation by 2013.<sup>52</sup> In January 2015, Digicel, one of the dominant mobile carriers in the Caribbean, announced they had surpassed 1 million smartphone subscribers. This means that 45 percent of their total subscribers now use smartphones, more than double the smartphone penetration in the Latin America and Caribbean (LAC) region as a whole.<sup>53</sup> Anecdotal evidence suggests that many people living in the Caribbean with smartphones do not subscribe to data plans but, rather, connect to wireless hotspots to access the Internet. In contrast, household use of the Internet is significantly lower, with only 15.3 percent of Jamaicans accessing the Internet in their homes.

**Access to the Internet is not a constraining factor on crowdfunding adoption in the Caribbean.** Young people, who are most likely to act as first-adopters, connect to the Internet on both mobile and computer devices and exist in large enough number to create critical mass behind initial use of crowdfunding. However, the financial resources of this group are likely insufficient to generate significant volumes of crowdfunding activity.

## **The Caribbean Regulatory Environment for Crowdfunding**

### ***Contributions, Reward, and Presale Crowdfunding***

Similar to international presale, contributions and rewards crowdfunding platforms, Caribbean-based crowdfunding platforms are not restricted by their local securities regulatory environment because they do not issue a promise of financial return. Consumer protection regulation and legal precedent on fraud are only relevant in jurisdictions where this type of crowdfunding takes place. Until recently, this assertion has been largely theoretical, because crowdfunding sites of this type including VisionFunder, Jamaica National Building Society, and Pitch & Choose have only recently publicly launched their services. Further legal study is required to determine how existing laws will govern people living in the Caribbean who list crowdfunding offerings on platforms based in the region and internationally.

In other markets, consumer protection agencies or law enforcement agencies have jurisdiction over campaigns that they determine to be fraudulent. Each of the countries included in the study have some form of consumer protection (Jamaica Consumer Protection Act of 2005, Trinidad and Tobago Consumer Protection and Safety Act of 2007, Barbados Consumer Protection Act in 2002, and Saint Lucia, which launched its Consumer Affairs Department in 1997). These acts provide regulation, enforcement, and remedy provisions that can support transparency and trust in these forms of crowdfunding. These acts cover a wide variety of consumer safety and protection from dishonest conduct. The regulations within these acts that are most relevant to crowdfunding include misleading the public regarding the nature and use of products or services, false or misleading statements, advertising standards, and demanding payments. However, it is important to note that one challenge in this area is to helping investors, lenders, or contributors to distinguish between malicious fraud and benevolent project delays or failure.

### **Box 6.3. Prosecuting Crowdfunding Fraud**

In Washington State in the United States, backers of a Kickstarter campaign uncovered the fraudulent use of funds by the campaign owner for living and moving expenses rather than for the product he had presold online. The Washington court ruled against him and forced his repayment of \$668 to 31 backers and was then fined \$31,000 in civil penalties and \$23,182 in court costs.

### ***Equity and Debt Crowdfunding***

No country in the Caribbean currently has specifically designed crowdfunding regulation. However, they all have well-purposed regulation to define and govern registration activities and reporting of investors, intermediaries, and fundraisers. In all cases, these regulations are created for traditional securities offerings and trading modalities, and will require additional specialization and clarification for novel alternative finance models.

The countries examined in this study share securities regulatory concepts, which are largely derived from the regulatory regimes found in the English common law system. All countries examined delineate between accredited investors and retail investors. For retail investors, regulators rely on licensed brokers or investment advisors to serve as intermediaries. Investor education is provided, but not mandated, for any investor. Though specific definitions or processes (for example, defining an angel investor, or registering a broker dealer) may differ, the opportunity exists for countries to issue specialized rules related to alternative finance, and to coordinate these novel regulatory frameworks across the region to achieve economies of scale.

Therefore, the future development of Caribbean equity and debt crowdfunding are unintentionally impacted by existing regulatory controls that govern debt and equities offerings in Jamaica, Trinidad and Tobago, Barbados, and the Organisation of Eastern Caribbean States (OECS). The applicable existing laws and regulations which govern supply-side, demand-side, and intermediating crowdfunding actors in Jamaica, Trinidad and Tobago, Barbados and Saint Lucia are as follows:

#### ***Jamaica***

- Supply-side regulations for “accredited” investors are defined as a wide array of governmental, banking, and private sector institutions, including individuals whose net worth exceeds J\$50 million (about \$400,000), or who has pretax earnings of J\$10 million (about \$80,000) for two prior years.<sup>54</sup> Private securities offerings are exempt from Financial Services Commission (FSC) of Jamaica registration if they target accredited investors or are below a valuation of J\$10 million,<sup>55</sup> although multiple Jamaican stakeholders reported that an array of private securities offerings are executed informally.
- Demand-side regulations are governed by the Companies Act (2004) which has provisions for public fundraising by companies and includes the requirement for a prospectus that must be approved by the Securities Commission for raising capital from within Jamaica. These rules do not apply to capital that is raised from outside Jamaica. One specific area for new

regulations is the registration and ongoing monitoring of crowdfunding platforms that operate in Jamaica. Regulatory experts believe that debt-based crowdfunding provides opportunities for expanding existing banking regulations and greater utilization of debt financing.

- Intermediaries are governed by the Securities Act which requires registration and licensing of securities dealers and investment advisors, especially in relationship to the Jamaican Stock Exchange and Junior Market. The notion of offering and advising via newer types of intermediaries or platforms is not specifically considered in the regulation. In addition, no one has ever attempted to license a crowdfunding platform with the FSC to date.

It should be noted that the Development Bank of Jamaica reported during the interview that its Jamaica Venture Capital Program has a component which seeks to address gaps in the legal, regulatory, and taxation frameworks for venture capital locally. The activities include conducting a review of existing frameworks and, where appropriate, offering amendments to promote best practice in other jurisdictions.

### ***Trinidad and Tobago***

- Supply-side regulation for “accredited investors” are defined by the Trinidad and Tobago Securities Act of 2012 as individuals with total net worth of no less than TT\$5 million (about \$750,000). It does not offer a definition based upon annualized income, nor for the combined liquid assets of married couples. The Trinidad and Tobago Securities and Exchange Commission (TTSEC) offers online investor education content, which provides information on the rights and responsibilities of investors, a guide to making wise financial decisions, avoiding fraud and other pertinent issues.<sup>56</sup> These online modules could be modified to provide new content on alternative finance models.
- Demand-side regulation is governed by the Securities Act of 2012 which allows SMEs to list on the public exchange although, as of the date of this research, no SMEs have listed. The compliance and registration process are standardized for offerings of all size. Stakeholders estimated that compliance costs for attorney fees, prospectus, accounting, auditors, and publication requirements to be a minimum of TT\$30,000 (about \$4,500) are similar to the requirements of larger companies. Private companies may take advantage of the “limited offering” exemption under the 2012 Act for securities distributions under two circumstances: (i) limited offerings to less than 35 persons, and that do not incur any promotional expenses in connection with the distribution, except for professional services, or (ii) offerings to fewer than 50 accredited investors. Officially, these private offerings are reviewed to ensure the transferability of the shares. Trinidadian stakeholders interviewed for this research

estimated that the TTSEC reviews approximately 10-20 of these offerings per year.

- Regarding regulation of intermediaries in Trinidad and Tobago, the TTSEC offers well-defined guidelines for broker dealers and investment advisors and underwriters, all of which must register with the TTSEC, and securities themselves may not be distributed unless first registered with the Commission. No precedent exists in Trinidad and Tobago to register alternative finance platforms within the existing regulatory framework.

The TTSEC has begun to study crowdfunding regulations in other countries with an eye toward developing regulations for Trinidad and Tobago. In December 2015, the TTSEC issued a brief<sup>57</sup> which considered the potential of issuing guidelines for equity crowdfunding. The TTSEC expressed interest in determining the following:

- The legislation (if any) required or regulation be created within existing laws;
- Procedure for licensing and monitoring crowdfunding platforms;
- Systems required for oversight of crowdfunding;
- Demand for equity crowdfunding by SMEs; and
- Procedure for permitting public solicitation.

## **Barbados**

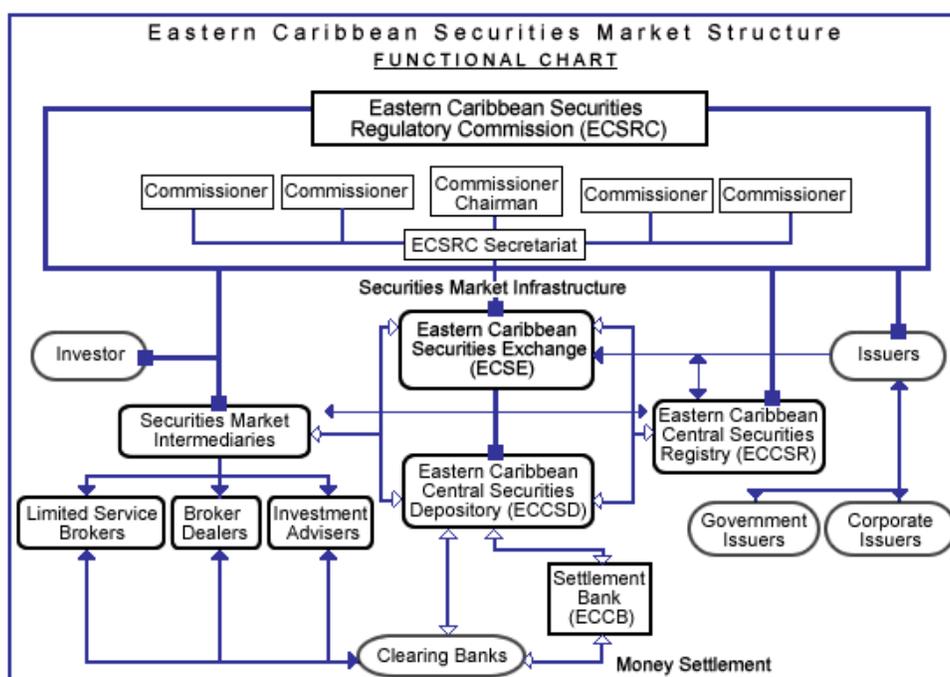
- Supply-side regulation for a “sophisticated investor” is defined as a person who (i) participates as principal in any trade of more than BDS\$100,000 (\$50,000), or (ii) someone who is able to evaluate a security as an investment on the basis of information provided by the seller by virtue of their net worth and advice which may be available from an investment adviser who receives no remuneration from the issuer or selling security holder in connection with the distribution.<sup>58</sup> There are no investment limitations for sophisticated or retail investors. The Barbados Financial Commission (FSC) offers investor educational materials, but these materials are limited.
- Regarding disclosures, the FSC requires annual audits of every financial institution by a Commission-approved auditor. The potential exists to include novel financial intermediaries within this reporting framework.
- Demand-side regulation is the responsibility of the FSC, which has transparently posted filing costs<sup>59</sup> for private securities listings, and does not limit fundraising amounts by companies or projects. Companies that issue to less than 50 accredited persons are exempt from reporting to the FSC. General solicitation is expressly prohibited.<sup>60</sup> Companies also have access to the Barbados Regular or Junior Market of the Exchange and must meet minimum criteria for audited financials, gross assets, minimum equity capital, and other conditions.<sup>61</sup>

- Intermediaries are required to submit initial and annual reporting to the FSC. Securities regulation governs securities companies, brokers, traders, dealers, investment advisors, and investment advisors and requires their registration and licensing. As with Trinidad and Tobago, Jamaica, and the OECS, the notion of offering and advising via newer types of intermediaries or platforms is not specifically considered in the regulation.

### ***Saint Lucia (and OECS)***

All participating countries in the Eastern Caribbean Securities Market (ECSM) are signatories and subject to the Uniform Securities Act 2001, which designates the Eastern Caribbean Securities Regulatory Commission (ECSRC), as the regulatory body, charged with ensuring that the market operates in accordance with the prescribed rules and regulations (see Figure 7.2).

**Figure 6.2. Eastern Caribbean Securities Market Structure**



Source: Eastern Caribbean Regulatory Commission.

- For Supply-side regulation in Saint Lucia, as with all counties within the ECSM, there is an accreditation status for broker dealers, and other intermediaries, but none for wealthy individuals or married couples of a certain net worth or annual income threshold. Stakeholders indicated that equity crowdfunding would likely be permissible within the ECSM, but regulatory precedent does not currently exist. The ECSRC has implemented an investor education program to improve investment knowledge and awareness; however, there is no mandate for reviewing materials. As with the other countries, Saint Lucia relies on registered brokers and investment advisors to address informational asymmetries and understanding of risk.

- Demand-side regulation in Saint Lucia are governed by securities legislation for the disclosure standards, which are set and administered by the ECSRC. In some instances, the ECSRC may also be required to determine the regulatory requirements relevant to an issue. The offer of securities may be subject to registration and/ or disclosure requirements. This depends on whether the securities will be offered to the public or it is determined by the Commission to be a private placement; and if the issuers of the securities are classified as domestic or foreign.
- Regarding the regulation of intermediaries in Saint Lucia, all companies must be licensed by the ECSRC, which actively monitors and supervises their regulatory compliance. These companies must also apply for membership of the Eastern Caribbean Securities Exchange (ECSE).

Additionally, the principals and representatives of these firms must be licensed by the ECSRC and certified to use the Eastern Caribbean Security Exchange's (ECSE) trading software. All licensed firms and personnel are subject to the rules and procedures of the ECSE. A Regional Debt Coordinating Committee, comprised of Eastern Caribbean Currency Union (ECCU) Financial Secretaries is charged with coordinating the policies and procedures for the Regional Government Securities Market (RGSM), and ensuring compliance of the participating governments.

A common refrain, however, stressed that this agenda should be pursued in a cautious manner to ensure that local regulatory regimes are appropriate for local contexts and leverage ongoing regulatory reform processes wherever possible. This type of integrated approach to regulatory evolution may also be more cost effective for governments that are exploring these changes. For example, the results of the Jamaica Venture Capital Program's review of the legal, regulatory, and taxation frameworks for venture capital locally could be shared with other jurisdictions<sup>62</sup> in the Caribbean to inform the development of their legislative framework.

### **Promoting Regional Crowdfunding Regulations**

It is assumed that to operate in multiple countries, a crowdfunding platform must be licensed in each country in which it does business. This may suggest that creating a common framework for debt and equity crowdfunding across the Caribbean might permits a region-wide market for these securities to form. This could resemble a model rule structure that enables common strategies, while providing latitude in developing approaches to local issues. Further, total combined alternative finance market activity across the entire region may be too small to support the creation of Caribbean specific platforms. As such, Caribbean regulators may consider aligning their regulatory regimes with that of larger markets in North, Central, and South America to allow for easy access to established sources of finance.

Exchange control limits imposed by central banks, do not allow for the easy movement of money throughout the region, especially in the case of the U.S. dollar, which is the main reserve currency for most Caribbean islands. AML and KYC requirements pose a significant impediment to the viability of regional crowdfunding in the Caribbean, especially regarding diaspora contributions. Large transactions inbound or outbound not only require greater scrutiny by banking institutions, and may be outright refused if believed to be "too difficult to process." While prudent AML/KYC regulation is vital to a secure banking system, there are occasions when financial institutions may choose to reject whole classes of transactions based on type, size, location, origin or industry. In the future, financial institutions could choose to find innovative, lower-cost ways to ensure the security of the banking system and to remain in compliance with AML/KYC regulations. This is a potential area for leveraging new technologies to enable broader commercial transactions. New antifraud solutions for online transactions are being developed and may be worthy of additional study. These include: CashShield a Singaporean company that offers an anti-fraud solution and currently has clients in Asia and Europe; as well as KYC-Chain, a blockchain-based KYC solution that is being developed in Hong Kong and works directly with traditional banks, and Banqu which provides blockchain-based identity and transaction verification to support economic development by creating a variety of services including security and immutability of transactions.

## **The Practice of “Regulatory Sandbox” Creation**

A growing number of regulators (For example, the United Kingdom, Malaysia, Thailand, Singapore, and Mexico) have already, or are in the advanced stages of implementing, a regulatory sandbox “that is a ‘safe space’ in which businesses can test innovative products, services, business models and delivery mechanisms without immediately incurring all the normal regulatory consequences of engaging in the activity in question” (FCA, 2016). The United Kingdom was the first to create this concept and used it to enable equity crowdfunding. Crowdcube and Seeders were the first two platforms that were enabled to operate using this type of “sandbox” structure. In 2015, the U.K. Financial Conduct Authority (FCA) outlined its views on the regulatory sandbox (FCA, 2015):

- A regulatory sandbox benefits consumers by enabling fintech solutions to come to market in a shorter period of time and compete by offering better services/options to consumers. It does this by reducing time and potentially cost of going to market. It may enable greater access to finance for all types of businesses and consumers. It allows more types of products to be tested in a transparent fashion that builds in consumer protections to both the process and the products.
- The U.K. FCA (FCA, 2016) states that there are “three key questions in investigating the feasibility of a regulatory sandbox:

- Barriers – What regulatory barriers do firms face when testing out new ideas? How and to what extent can they be lowered?
- Safeguards – What safeguards should be in place to ensure consumers and the financial system are appropriately protected during testing?
- Legal framework – What regulatory arrangements are mandated by regional legislation and therefore are not within the remit of the FCA to change?”
- Regulatory sandboxes require an application and approval process to be admitted, and then regular robust reporting and communication during the deployment of the fintech solution. This maintains the regulator’s oversight throughout the process.
- To date, setting up regulatory sandboxes has been led by regulators with consultation from industry participants. In its 2015 paper, the FCA also explored the opportunities for sandbox initiatives that could be coled by industry or led by industry with support from regulators. These latter two types of sandbox initiatives are less likely in the near term given that in most jurisdictions, regulatory changes are led by the regulator.
- While this type of innovative structure is less than five years old, it has gathered significant attention and, to date, there have been no large-scale issues or frauds via sandboxes. However, given the persistence of fraud generally, it may be expected that it could occur at some time in the future.

The possible formation of a region-wide regulatory sandbox (or individual country sandboxes) is a reasonable concept for Caribbean regulators and policymakers to analyze and consider as they seek solutions to drive financial innovation in the region.

## **Potential Users of Caribbean Crowdfunding Platforms**

**Caribbean populations use the Internet at relatively high rates, which bodes well for crowdfunding.** Internet usage in the CARICOM countries is high at about 62 percent (see Table 6.1) when compared to an average of 34 percent in all developing countries, but low compared with 78 percent in developed countries.<sup>63</sup>

Fifty percent of all Caribbean Internet users are connected to social media. On average, about 43 percent of all people in CARICOM countries have Facebook accounts and are active online, which is a positive indicator for the potential of viral sharing of crowdfunding campaigns via these platforms.

Caribbean Internet users are disinclined to transact over the Internet, especially for transactions originated from people outside of their immediate social and professional networks. Globally, the origin of this mistrust in Internet transaction is attributable to (i) the Internet’s primary use

for entertainment and communication, (ii) prevailing norms around transacting in persons, and (ii) online security measures that are hard to understand by consumers.<sup>64</sup>

Specifically related to the concept of crowdfunding, Caribbean stakeholders indicated that public mistrust is especially high regarding the communal pooling of capital, driven by the widespread notoriety of multiple “pyramid schemes” over the past decade in Jamaica. Diaspora populations are often regarded as a ready source of capital, although the issues of trust, logistics of capital and information flows, and economics prohibit the ready flow of capital goods and capital between these communities.

**Table 6.1. Internet and Social Media Use in the Caribbean**

	Population (2014 Est) <sup>a</sup>	Internet Usage (2014) <sup>b</sup>	% Penetration <sup>c</sup>	Facebook Subscribers <sup>d</sup>	% Facebook Subscribers of Users <sup>d</sup>
<b>Anguilla</b>	16,086	10,424	64.80	7,200	69
<b>Antigua and Barbuda</b>	91,295	81,545	89.30	30,420	37
<b>Bahamas</b>	321,834	293,875	91.30	167,920	57
<b>Barbados</b>	289,680	224,588	77.50	122,220	54
<b>Cayman Islands</b>	54,914	47,003	85.60	30,380	65
<b>Dominica</b>	73,449	43,335	59.00	24,420	56
<b>Grenada</b>	110,152	47,903	43.50	29,080	61
<b>Jamaica</b>	2,930,050	1,581,100	54.00	677,960	43
<b>Martinique</b>	410,508	303,302	73.90	132,220	44
<b>Montserrat</b>	5,215	2,847	54.60	No Data	No Data
<b>Saint Kitts and Nevis</b>	51,538	41,230	80.00	22,600	55
<b>Saint Lucia</b>	163,362	142,900	87.50	59,000	41
<b>Saint Vincent and the Grenadines</b>	102,918	76,000	73.80	38,640	51
<b>Trinidad and Tobago</b>	1,223,916	780,858	63.80	484,780	62
<b>CARICOM</b>	5,844,917	3,676,910	62.91	1,826,840	50

*Source:* Internetworldstats.com.

*Notes:* a. The demographic (population) numbers are based on data contained in Census Bureau. b. The most recent usage information comes mainly from the data published by Nielsen Online, ITU, Facebook, and other reliable sources. c. The Caribbean Statistics were updated for June 30, 2014. d. Facebook subscriber data is for December 31, 2012, the last data available.

Given the lack of trust in newly introduced online transactions and societal awareness of fundraising fraud, the most likely prospective “first movers” for the adoption of crowdfunding are entrepreneurial communities and their personal and professional networks. These communities, such as Launch Rocket in Trinidad and Tobago, are proactively engaging with new technologies, and have built extensive trust networks through offline and online communal entrepreneurial activities.

The vast majority of people living in the Caribbean are not familiar with crowdfunding. A small number of notable success stories involving local people living in the Caribbean fundraising on international platforms have driven some initial interest in the phenomenon of crowdfunding. A number of respondents interviewed expressed the view that entrepreneurial communities and their personal networks may be the most likely prospective first movers for the adoption of e-commerce mechanisms, including crowdfunding, but local business practice or models to bridge the gap in trust has not yet surfaced in the Caribbean. Even in these entrepreneurial communities, concern was voiced that a sales and educational effort would be required to build the trust required to pre-purchase an item, or to make a loan or an equity investment.

**There are few and disparate efforts to enable Caribbean firms to access crowdfunding.** Enabling organizations continue to express a staunch interest in developing crowdfunding support as a service for their entrepreneur clients. However, business models for providing those services remain unclear. Fundraising amounts are not sufficiently high to warrant a success-fee crowdfunding consulting services.

#### **Box 6.4. Matching Fund to Incentivize Contributions Crowdfunding**

The Cheetah Fund, a Danish program run in Kenya in partnership with the 1 percent Club crowdfunding platform, provided 70 percent of a company’s target crowdfunding goal once that company raised the initial 30 percent from private sources of capital. The matching funds provided clear impetus for contributors to give to campaigns despite their lack of familiarity with the crowdfunding funding mechanism.

Grant making facilities across the region are under disbursing, however; none currently consider co-promotional activities in collaboration with crowdfunding campaigns because of lack of volume and perceived demand from entrepreneurs. Grant programs are not currently being utilized (i) to prepare entrepreneurs for crowdfunding campaigns, (ii) to match funds of potential investors, which has been an effective supply-side stimulant in other nascent crowdfunding ecosystems.<sup>65</sup> The institutions responsible for these grant-making facilities were interested to understand further about the utilization of crowdfunding as a trigger for awarding of concessional financing.

### Box 6.5. Household Internet Use in Jamaica

In Jamaica, the use of the Internet for buying and selling of products and services is low. Contributing factors to this may include lack of trust in using the Web for financial transactions and, or the low availability of convenient and effective online payment mechanisms. Individuals do not trust the Web for transactions, so entrepreneurs, banks, and so on, do not develop ways to sell online. Thus, there are relatively few opportunities to purchase goods online so individuals do not experiment with online forms of payment (for example, credit cards, PayPal, Square, and so on).

The data indicate that social media is utilized frequently by people living in the Caribbean. This bidirectional activity is an important next step in web adoption behavior because it can require self-identification, and involves both sharing and consuming information, opinions, and data. The next foundational step in a crowdfunding ecosystem is unidirectional transaction completion – buying items online for immediate pickup or delivery via trusted sources, involving large brands, courier services, and brands where a consumer has significant personal relationship). This requires credit card or other payment transactions (that is, e-commerce). Finally, bidirectional transaction completion – transactions that are of greater size or significance and, or require greater trust in counterparties (owing to time delays in settlement of transactions, size of transactions, cross border flows (for example, all forms of crowdfunding). Within crowdfunding, different models require greater trust, transparency, data and infrastructure in order to be successful.

*Source:* Hopeton Dunn, Caribbean Broadband and ICT Indicators Data Sheet, Jamaica, 2011.

Diaspora populations are often regarded as a ready source of capital, although the issues around trust, payments and economics will prohibit them from being first movers. To date, only a limited number of projects have successfully accessed these networks, in an ad hoc manner. This may be due in part to a lack of availability of local trusted intermediaries for diaspora to use in the campaigns to which they are contributing. This challenge is magnified when the campaign is an equity or debt campaign, given the larger sizes of investments or loans, instead of a donation. Logistically speaking, the ability to market effectively to diaspora members has proven elusive for projects and firms and crowdfunding platforms despite some outlying success stories (see Box 6.6).

### Box 6.6. Jamaican Bobsled Team

The Jamaica Bobsled team, based in New York, ran the most successful Caribbean-focused crowdfunding campaign. It is important to note that while the campaign capitalized on the Jamaican branding, it was not majority-funded by people living in the Caribbean. However, given the limited data available on crowdfunding that has occurred wholly in the Caribbean, this was the most prominent example that was available. The team utilized a multiple-platform approach between Indiegogo, Crowdfunder (including cryptocurrency) in order to fund their participation in the 2014 Winter Olympic Games in Sochi, Russia. On the Crowdfunder platform (now simply known as Funder), the team raised \$130,000, with a 2.5 percent fee on the total, and a three percent fee on credit card contributions. The average donation was \$34.60, with nearly 3,000 individuals contributing to the campaign from all 50 U.S. states and 52 countries. Interestingly, virtual currencies were also a part of this campaign. In fact, \$30,000 of their Crowdfunder campaign was collected in the form of Dogecoin, a cryptocurrency similar to Bitcoin. The cryptocurrency fundraising incurred no base fee and less than one percent transaction fee. Dogecoin was exchanged for a fiat currency, presumably U.S. dollars, and contributed to the Crowdfunder campaign. In addition, the Jamaican bobsled team conducted an Indiegogo campaign to raise an additional \$55,987 from 1,546 people in four days. Indiegogo charged a four percent base fee on their successful campaign. The bobsled team campaign was certainly a unique example given their notoriety with a vast number of young people internationally.

*Sources:* Alois 2014; Laird 2017.

Consumer-facing, reward-based campaigns (which have typically been executed first in the development of crowdfunding ecosystems) will be seriously impeded by high transport costs in the Caribbean. The ability of Caribbean companies to execute this type of campaign is hampered because of a lack of access to supplies, materials and tools. Also, the costs of shipping to deliver goods to their final destination outside of the region may also be prohibitive for some low-cost items. These logistical questions in addition to the transparency issues discussed above, create the need for further investigation regarding the suitability of diaspora investors for the initial target of crowdfunding efforts by Jamaican entrepreneurs. To date, local Caribbean angel investors have not emerged at meaningful levels to support significant numbers of entrepreneurs' crowdfunding campaigns. Data regarding the venture capital industry is not available. There may be benefit in further study in this area to understand the current state of the local Caribbean investor community and if there are areas for supportive stakeholders in skilling this community. The issues with the diaspora are first and foremost of trust and then logistics and payment systems.

**Business support organizations may develop the technical capacity to support crowdfunding in the Caribbean.** Many of these support organizations, including universities, accelerators, incubators, government and development agencies, expressed some level of interest in experimenting with crowdfunding. However, their concerns were that specific repeatable

models for accessing investment dollars in their start-ups are not yet available in their country. Currently there are few and disparate efforts to enable Caribbean firms to access crowdfunding. In more, developed crowdfunding markets there is growth in bespoke crowdfunding consulting by individuals with product design, marketing, and logistics backgrounds. However, the low total volume and small transaction sizes currently do not support this model in the Caribbean.

## 7. Conclusion and Recommendations

The emergence of crowdfunding provides a unique opportunity to take a collaborative approach to creating policy, regulation, technology, and enablement for the entrepreneurial ecosystem in the Caribbean. This report aims to increase understanding of the emerging world of crowdfunding and to bring sharper focus to ways that the emerging economies of the Caribbean can harness it for the development of their economies and entrepreneurial ecosystems.

In developed economies, the current models of social media enabled crowdfunding are not quite a decade old, yet billions of dollars have been raised via these new services with extremely low levels of fraud. This research considered four nations in the English-speaking Caribbean to consider if, and how, crowdfunding could be enabled in a culturally relevant way. The study revealed several structural barriers across all four nations – particularly the lack of appropriate regulation and online payment systems and money transfers – that make crowdfunding difficult to become established. In addition, the study identified opportunities to support existing entrepreneurial development activities through the use of crowdfunding and developed recommendations on cultural, technology and regulatory vectors, which are presented below.

The report provides regulators and policy makers with a roadmap of potential near-term and medium-term actions to create the next steps in developing the crowdfunding ecosystem in the Caribbean. These steps involve conversations between stakeholders, and the development of policies, programs and regulation to improve the financial infrastructure in the region to better enable crowdfunding. Following this roadmap will require leadership, commitment, and action at the regional, national, and local levels to bring the changes necessary for crowdfunding to thrive.

It is hoped that these practical steps can help support existing programs to create a viable environment for crowdfunding to develop in the Caribbean. While structural challenges will continue to hamper the growth of this important sector of the economy, development organizations, governments, regulatory bodies, and entrepreneurship enablers all have a role to play in creating better access to finance for the entrepreneurs in the Caribbean.

This preliminary assessment highlights both threats and opportunities for the utilization of crowdfunding in the Caribbean. At the macro level, low utilization of electronic payments and banking services, limited access to a small number of crowdfunding platforms, and a lack of familiarity and trust of online fundraising systems by people living in the Caribbean and the diaspora pose significant challenges to the development of crowdfunding. Additional structural factors that may challenge the development of crowdfunding include the overall legal and

regulatory framework and its ability to meet the needs of innovative forms of finance, the capacity of regulators and ecosystem stakeholders to effectively supervise these new tools, the capacity of law enforcement agencies to take action, and access to effective justice institutions. While these challenges are acknowledged, making specific recommendations to help resolve them is beyond the scope of this report. Nevertheless, although these challenges exist, there are also numerous positive activities that demonstrate interest in, and potential for, crowdfunding in the Caribbean. Governmental interest in regulatory reform, increasing web utilization, experimentation by local crowdfunding platforms, and the formation of an embryonic entrepreneurial ecosystem may be among the fundamental building blocks for a crowdfunding market for the Caribbean.

The report recommends specific interventions to build user capacity through engagement, strengthen technology infrastructure, and enact regulatory frameworks to support the development of crowdfunding across the region.

### **Building User Capacity Through Engagement**

As is evident in more advanced crowdfunding ecosystems, first development of crowdfunding will likely involve the preselling of tangible products (for example, music, agricultural produce, and so on) and services (for example, tourism) produced by Caribbean-based start-ups. These first adopters will not wait for the perfect technological and regulatory conditions; rather they will attempt to circumnavigate obstacles to success. To overcome the challenge of payments, it is likely that first adopters will utilize Caribbean platforms with connections to Caribbean-based banks, such as JN Bank. To overcome the challenge of trust, crowdfunding campaigns will target personal, local networks – such as Startup Weekend in Trinidad and Tobago – in pursuit of small amounts of money (for example, \$2,000-\$5,000). These campaigns should assume only marginal “viral” sharing of their request, and will serve merely as proof-of-concept to gain further funding or marketplace traction.

To support the initial experimentation of entrepreneurial community to adopt crowdfunding, the following actions are recommended for regional stakeholders, government agencies, development organizations to consider:

- 1. Offer specific technical assistance to Caribbean entrepreneurs, in partnership with their enabling organizations.** Motivated stakeholders could immediately leverage existing training materials and industry expert trainers, mentors, and peers to conduct “crowdfunding 101” workshops with enabler staff, as well as to provide scalable online learning tools, such as the crowdfunding Massive Open Online Course (MOOC) which was offered by *infoDev*, in the

Caribbean. This MOOC could be used to measure interest level in crowdfunding in countries and communities in the region.

**2. Facilitate the participation of global crowdfunding experts** within existing Caribbean conference series regarding entrepreneurship and entrepreneurial finance. Fostering communication and connectivity between international regional and national entities can accelerate growth and ecosystem development. Once Caribbean entrepreneurs and their associated enabling institutions, in partnership with the World Bank, have established a methodology for utilizing Caribbean and/or internationally based crowdfunding platforms, and a critical mass of entrepreneurs are attempting to access crowdfunding, the following actions are recommended to expand the development of crowdfunding access.

**3. Support Caribbean grant making facilities to develop and implement a preparatory technical assistance window** for companies that wish to launch crowdfunding campaigns. Technical assistance grant facilities could be made accessible by companies, aligned with an incubator, who were seeking to build capacity to execute a crowdfunding offering.

**4. Support Caribbean grant making facilities to develop and implement matching grant “top-up” windows.** Similar to windows used in Kenya and the United Kingdom, Caribbean matching grants could provide incentive for offline fundraising to move online, and offer an efficient, demand-driven mechanism for allocation of institutional grant monies. Such a window could be added to existing grant making facilities to increase disbursement rates. Further research and discussions could be useful between development organizations, regional financial institutions, and quasi institutional investors (e.g. Gates Foundation, Chan Zuckerberg Initiative) regarding additional collaborative funding models to “prime the pump” for crowdfunding in the Caribbean to support broader economic development goals.

**5. Explore creation of pilot programs to test how the Diasporas of Jamaica and Saint Lucia could be further engaged via financial return crowdfunding opportunities.** These pilots may choose to begin as educational efforts on what crowdfunding is and how it operates and the survey participants in these educational efforts regarding their interest in participation in these types of investments. Campaigns for real estate and existing SMEs may provide an easier place to begin raising capital via crowdfunding, given the existing investments via traditional methods in those sectors. Jamaica is suggested due to the size and economic importance of the diaspora and the relative sophistication of the financial system. Saint Lucia is suggested because of its national diaspora engagement and economic development policy and as a place to test small state/OECS focused pilot programs.

**6. Stakeholders, development organizations, and governments could support the development of educational materials for investors**, in concert with efforts to develop regulatory frameworks for the crowdfunding of securities (see regulatory recommendations below). Robust investor education tools for both professional and retail investors to understand the high risks associated with all types of crowdfunding, especially equity and debt.

**7. Sector Specific Initiatives** – Experience in crowdfunding from other markets indicates that it can be effective for a wide variety of industries and the research teams believes that traditional SME's, Technology-based start-ups and creative industries could potentially benefit from the ability to access capital via both financial return and nonfinancial return crowdfunding. In addition to other pilot initiatives in traditional SMEs and technology start-ups, given the strengthen of creative industries (e.g. music) in the Caribbean, development organizations and other ecosystem enablers could consider creating a pilot program to create campaigns for music artists. There have been a number of nonfinancial campaigns on Kickstarter and Indiegogo for music/creative arts campaigns. Also, there is a new platform operating in Chile and Mexico today ([www.weeshing.com](http://www.weeshing.com)) that provides musicians with a way to crowdfund concerts and provides financial returns to contributors (in addition to their tickets) for successful concerts. This may be an interesting model to explore in the Caribbean. Creative industries crowdfunding may also provide an entry point for crowdfunding that unites a well understood, low cost product, with a low risk transaction (music) with a new way to raise money from community /affinity groups (fans). This offline to online “bridge” may help to build trust in making an online transaction with a known/trusted entity. The awareness of crowdfunding in Jamaica is nascent, but is among the fastest growing in the Caribbean (De Leon, et al, 2016) and given its vibrant music industry, may provide a possible location to pilot this concept.

## **Strengthening Technological Infrastructure and Collaboration**

Regarding payment systems, the development of a multitude of payment options to expand access and increase affordability is a cornerstone for the adoption of crowdfunding in the Caribbean. On the supply side, Caribbean governmental, regulatory, and banking authorities have made great gains to promote modern payment systems but still have work to do to support broad-based inclusion. On the demand side, Caribbean entrepreneurs are working to develop payment and other online transaction solutions within current regulatory frameworks.

To support both regulatory and entrepreneurial payment system activity, the following actions are recommended for regional stakeholders, government agencies, and development organizations to consider:

**8. Strengthen collaboration among Caribbean governments, namely central banking authorities, to formulate and, or implement strategies for payment system modernization.**

Specifically, this initiative may consider national technical infrastructure, supervisory mechanisms, as well as legal and regulatory frameworks that allow necessary space for innovative firms to participate in the development of new, innovative financial technologies. Authorities in Jamaica and Trinidad and Tobago seemed particularly well poised to engage experts on this agenda. In particular, the Eastern Caribbean Central Bank has pursued payment systems modernization in past years and may present near-term opportunities for partnership as well.

**9. Stakeholders could leverage entrepreneurship-enabling programs to channel technical and financial resources to Caribbean financial technology start-ups,** given the implementation of a supportive regulatory environment for nonbank financial intermediaries. In addition to payment systems, the Caribbean requires crowdfunding platforms that can serve as trusted intermediaries to companies and projects on the ground. In the adoption phase, donation, rewards, and presale crowdfunding are uniquely positioned to grow immediately, without further evolution in the regulatory framework. Further, crowdfunding of debt via platforms owned and operated by licensed Caribbean banking institutions presents another opportunity for immediate experimentation.

To support the operation of such intermediaries, the following actions are recommended:

**10. Development organizations or governments should NOT start a crowdfunding platform.** By conservative estimates, the number of new crowdfunding websites globally is growing by 60 percent year on year,<sup>66</sup> without clear market winners in most emerging markets. Global development organizations are ill-suited to add to this growing number of funding platforms, and would only serve to crowd out local and international platforms, which intend to capitalize on the Caribbean market. Additionally, if a government run platform is created, it “crowds out” private industry from creating viable platforms, and can stunt the growth of the industry because there could be a negative perception of the government or a development organization “controlling” how companies raise money in crowdfunding. The creation of a private sector crowdfunding industry enables more private sector jobs to be created by the industry itself. Additionally, institutions should be very careful not to be perceived as “picking winners and losers” in supporting one private sector platform over another. This may create unintended consequences in what kinds of companies use crowdfunding, how the industry forms, can the industry create a functional industry trade association of one or more of the platforms are closely aligned with major institutions?

**11. Rather, development organizations and other stakeholders could provide technical and network support to improve efficacy of embryonic, existing Caribbean-based crowdfunding platforms.** One possible example of an initiative that could be evaluated for support is the Jamaica National Building Society’s ISupportJamaica platform’s engagement of peer-to-peer lending and microfinance industry experts to explore refinement of the platform’s value proposition and operating model. Another possible example could be to provide advisory support to VisionFunder to address payment systems issues, and engage and prepare a pipeline of potential projects.

**12. Development organizations and policymakers should consider supporting the formation of a Caribbean Crowdfunding Trade Association for crowdfunding platforms and industry allies.** These associations are also helpful in embracing global best practices on data standards and reporting and driving their utilization by approved member crowdfunding platforms. An association also plays a vital role in ongoing engagement with regulators and policymakers over time, to both establish financial return forms of crowdfunding in a country and monitor and modify regulations and data, support investor education and issuer education efforts and collaborate with the global industry on bringing global best practices to the Caribbean.

**13. Dependent upon demand by entrepreneurs, a pilot program could be developed to expose Caribbean start-ups to diaspora members using existing international crowdfunding platforms,** such as Homestrings, Angellist, or OurCrowd. Regarding Homestrings, development organizations or subject matter experts could facilitate the appropriation of a local intermediary to source, assess, and package companies or projects for review by diaspora investors. Regarding Angellist, appropriate experts or organizations could engage private sector investors to explore the formation of a Caribbean-focused syndicate<sup>67</sup> to buy equity in Caribbean start-up enterprises.

In the Caribbean, it may be preferable to create a product that acts like debt but is actually structured more like a bond. This could resolve the issue faced by other countries in which debt crowdfunding platforms hold funds or make loans that fall within banking regulations that prohibits any company, other than a bank, to have custody of client funds.

Another successful example of both harnessing the diaspora and utilizing a centralized organization to coordinate diligence and oversight is the Israeli crowdfunding platform OurCrowd, which creates investor syndicates for individual companies. They then act as a lead investor and solicit accredited investors to join the syndicate for that individual company.

Stakeholders and regulators may choose to explore some “light touch” tools to facilitate some initial experimentation with these well-respected international platforms, or others like them. Three examples of these tools that could be used (from easiest to most complex) include: 1)

letters of exemption from local securities regulators for a fixed number of campaigns, utilizing a specified platform as part of a pilot project. 2) A Memorandum of Understanding between a well-respected international platform and a regulator to define the rules of how an international offering could be conducted on a platform, that could include both local and international/diaspora investors. This could exempt these offerings from standard securities filing requirements that could be expensive and onerous. 3) “Passporting rights” for securities offerings to be conducted between different countries. This type of provision, is one that would most productive after other shorter term / regulatory sandbox type provisions have already demonstrated success. While passporting rights can provide durability/certainty in the fact that these investment vehicles will remain in place for a reasonable period of time, it will likely take a significant amount of time to negotiate and implement.

### Enacting Regulatory Frameworks to Support Crowdfunding

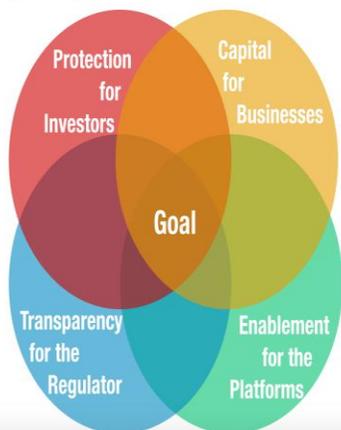
The development of legal and regulatory frameworks to govern financial return crowdfunding has proven to be a protracted process in both developed and developing countries. As such, technical assistance to governments and regulators could commence in the near term, to empower their effective monitoring of present crowdfunding development, and to craft tailored regulatory frameworks to promote the growth of the industry in the future.

One relatively new way regulators are dealing with the rapidly changing landscape of financial technologies (fintech) is the creation of a “Regulatory Sandbox” to remove regulatory barriers that may no longer be required.

**Figure 7.1. The Balanced Stakeholder Framework™**

#### The CCA Balanced Stakeholder Framework™

All 4 Sectors Need to Come Together to Create a Vibrant Crowdfunding Ecosystem



Regulators and other stakeholders could choose to utilize a framework to help facilitate decision making in creating a regulatory environment that balances the needs and requirements to create an efficient, transparent, and effective market. One example of a methodology that regulators can utilize is The Balanced Stakeholder Framework™ (see Figure 6.1). It can be used to create policy frameworks that balance the needs of the four stakeholder groups – (1) investors, 2) companies seeking funding, 3) regulators and 4) crowdfunding platforms – that are required for an effective crowdfunding ecosystem to form.<sup>68</sup>

These four stakeholders have unique needs and interests, however. In order to create a crowdfunding ecosystem that can scale effectively, these stakeholders must have their needs balanced against each other so that policy and regulation are created in a way that creates robust and transparent market opportunities.

The Balanced Stakeholder Framework™ holds that the four stakeholder audiences must be adequately served by financial return crowdfunding policy and regulation, and must include:

- *Protection for Investors*: This is a core tenet in all securities regulation globally, to protect investors via adequate disclosure of relevant information to enable them to make informed decisions. If constructed properly, crowdfunding has the potential to provide investor protection because the data is online, stored in databases and can be standardized and reported more easily than the data from traditional securities filings that may be paper-based or in databases that are not easily wielded.
- *Capital for Businesses*: The goal of developing crowdfunding is to create opportunities for SMEs and entrepreneurs to gain access to capital not available before. If the regulations and processes to access this capital are too expensive, time consuming, difficult, or unmanageable, then the time spent creating the regulation and infrastructure will fail, because businesses and entrepreneurs will not use it. They will continue to do without and this mechanism for capital formation will not reach its potential.
- *Transparency for Regulators*: Transparency is one of the required elements in crowdfunding. It utilizes technology to create communication and transparency to develop an environment in which trust can be built and transactions can take place. This new market must be transparent for regulators. Crowdfunding offers the possibility to provide greater access to data and information on companies and offerings than has been available in the past. That transparency can support effective and timely decision making by regulators to modulate best practice and regulations more rapidly and efficiently than was previously possible.
- *Enabling Crowdfunding Platforms*: If crowdfunding platforms are not allowed to be profitable, self-sustainable businesses, the ecosystem will fail because the platforms will cease to operate. Stakeholders and decision makers can work to provide adequate oversight of platforms, but do so in a way that leverages the technology to make it simple and efficient for platforms to comply.

This framework can support decision makers in making regionally appropriate and balanced policy for crowdfunding.

An analogous regulatory adaptation process was recently conducted in Malaysia under the Guidelines on Regulation of Markets under Section 34 of the Capital Markets and Services Act of 2007. The guidelines allow new forms of fundraising that allows start-up or other smaller enterprises to obtain capital through small equity investments from relatively large numbers of investors, using online portals to publicize and facilitate such offers to crowd investors. The process was supported via inputs from international experts and practitioners from other more developed crowdfunding markets.<sup>69</sup>

To support appropriate intermediation for regulation in the Caribbean, the following actions are recommended:

**14. Caribbean policymakers, regulators, relevant development organizations and entrepreneurship leaders should convene a regional conference to consider global trends and best practice in the regulation and monitoring of financial return crowdfunding.** During the conference, diverse representatives from the four stakeholders may discuss possible approaches to deal with the questions posed in The Balanced Stakeholder Framework™. The following questions correspond to each of the stakeholders in the framework:

Protection for Investors:

- Individual investment limits for investors?
- Transfer restrictions for securities?
- Limits on the number of shareholders per issue?
- The need for “educationally accredited investors” in crowdfunding, and reassessing the requirements to be an accredited investor?
- Investor education needs/requirements/available tools?

Capital for Businesses:

- Types of businesses/entities using crowdfunding?
- Maximum offering size?
- Closing speed for offerings?
- Offering documents and prospectus requirements/online tools?
- Financial disclosure requirements?

Transparency for Regulators:

- Investor verification (including “know your customer,” anti-money laundering and antiterrorist verification)?
- Prefiling and “testing the water” provisions for issuers?
- Diaspora investor specific communication/education/pilot programs to strengthen regional financial engagement?
- Resolving money transfer/exchange control issues to enable cross-border investment?

- Ongoing disclosure and filing requirements, including termination of reporting requirements?
- Data monitoring and communication methods with the crowdfunding industry and industry trade association?

#### Enabling Crowdfunding Platforms:

- What are the steps in the formation of a crowdfunding professional association to serve as one entity to engage with policymakers and regulators on crowdfunding industry issues and collaborate with regulators on creation of regulation for this new space?
- Availability of advertising and general solicitation (including via the Web and social media)?
- Crowdfunding platform requirements including common data standard for the industry?
- A crowdfunding platform liability preemption – equivalent to the safe harbor that exists for traditional offerings?
- Contemplation of secondary markets for securities?
- Liability limits for platforms?

Caribbean policy makers and regulators may consider a structure for these dialogues with a goal to create draft model rules for financial return crowdfunding. This work could be led by 2-3 regulators that can function as a “working group” to create draft proposals for all countries to consider. This structure could accelerate the creation of a draft proposal. The value here is that once there is a draft proposal, it is much easier for all parties to engage in productive and focused dialogue about an actual draft proposal. Based on our field work, potential candidates for this working group could include Jamaica (largest securities market, large diaspora, Upper Middle Income Economy (World Bank 2016), highest awareness of crowdfunding (De Leon and Mora 2016), Trinidad and Tobago (SEC has done significant study of crowdfunding, second largest GDP in the Caribbean and highest per capita GDP in the region,<sup>70</sup> High Income Economy (World Bank, et al 2016) and the OECS Securities Commission to provide Eastern Caribbean and small states representation.

**15. Facilitate dialogue with innovative regulators in other regions that have enacted balanced and effective crowdfunding regulation.** While these conversations may include regulators from developed economies, the opportunity to hear how different regulators consider these issues may be helpful to Caribbean regulators. A few examples of possible regulatory authorities that may be helpful in additional conversations regarding best practice could include the United Kingdom, Mexico, and New Zealand. These regulators may provide useful information at both the regional level and country-specific level.

**16. Explore potential creation of innovative tax incentive structures to stimulate interest in making investments in SMEs/Start-ups and partially protecting investors from catastrophic loss.** This recommendation is based on the successful Venture Capital Trusts (VCT), Seed Enterprise Investment Scheme (SEIS) and Enterprise Investment Scheme(EIS) programs in the UK.<sup>71</sup>

- **Venture Capital Trust-** This gathers qualifying companies into a collective investment and individuals can buy shares in the collective trust. The shares in the trust are transferable (unlike most traditional early stage investments) and a maximum of £200,000 (about \$260,000) is permitted. The companies in the trust must be less than seven years old and have assets of less than £15 million (about \$20 million). Investors receive a 30 percent tax break on the money they invest if it is held for five years. Investment growth is tax free as is any dividend income.
- **Seed Enterprise Investment Scheme (SEIS)** – The company must have assets less than £15 million (about \$20 million) and fewer than 250 employees. Some types of businesses are excluded (e.g. real estate, legal, financial, farming). Investors receive a 30 percent income tax credit on the money they invest and any gain on the investment is inheritance tax free as long as it is held for 2 years. Investors receive a credit against capital gains up to £11,100 (about \$15,000). There is also “loss relief” if the investment to write off the loss of the investment.
- **Seed Enterprise Investment Scheme (SEIS)** – Created for investments in start-ups that are less than 2 years old and have received less than £150,000 (about \$200,000) in funding. If the business fails, there is a 50 percent tax credit on what has been invested if the investment is held for at least three years. All gains are tax free and are also free from inheritance taxes. If gains from other investments are invested into an SEIS company, their capital gains tax on that prior investment is reduced by 50 percent.

**17. Caribbean policymakers and regulators, with support from development organizations, may consider continued development of laws and regulations to enable the usage of payment systems.** There is significant innovation taking place globally in payment systems. Payments via messaging systems (for example, WeChat, Apple’s iMessage, AliPay), new ways to deliver remittances via virtual currency (for example, PayPhil or Sentbe. Bitcoin flows accounts for 20 percent of the remittances from Korea to Philippines<sup>72</sup>) or via Traditional banking ATM infrastructure (for example, QF Pay). Caribbean policymakers may consider organizing a fact-finding mission to meet with companies in Latin America, North America and/or Asia that are solving the challenges of payments in innovative ways and discuss if there are ways to offer incentives to these companies to adapt their solutions to serve the Caribbean regional market. Traditional financial institutions have an opportunity to explore these solutions, in collaboration with traditional banking systems, to provide services to their clients.

**Table 7.1. Summary of Recommendations**

FACTORS	IMMEDIATE TERM	INTERMEDIATE TERM	LONG TERM
<b>User Capacity</b>	<ul style="list-style-type: none"> <li>• Offer technical assistance to Caribbean entrepreneurs, in partnership with their enabling organizations.</li> <li>• Facilitate the participation of global crowdfunding experts within existing Caribbean conference series regarding entrepreneurship and entrepreneurial finance.</li> <li>• Although crowdfunding can be utilized in many industries, stakeholders could consider one or more sector-specific pilots for financial return crowdfunding. (e.g. music / creative industries)</li> </ul>	<ul style="list-style-type: none"> <li>• Support Caribbean grant making facilities to develop and implement a preparatory technical assistance window for companies that wish to launch crowdfunding campaigns and a matching “top-up” fund.</li> <li>• Develop a program to seed Caribbean on existing international crowdfunding platforms, such as Homestrings, AngelList or OurCrowd.</li> <li>• Develop pilots in targeted countries to test Diaspora crowdfunding educational and engagement strategies</li> </ul>	<ul style="list-style-type: none"> <li>• Develop regulatory frameworks for the crowdfunding of securities and governments could support the development on educational materials for investors.</li> </ul>
<b>Technology &amp; Collaboration</b>	<ul style="list-style-type: none"> <li>• Strengthen collaboration between public and private sectors to formulate and, or implement strategies for payment system modernization.</li> <li>• Support the formation of a Caribbean crowdfunding/fintech industry association</li> </ul>	<ul style="list-style-type: none"> <li>• Provide technical and network support to improve efficacy of embryonic existing Caribbean-based crowdfunding platforms.</li> </ul>	<ul style="list-style-type: none"> <li>• Implement promotional tax policies to support Caribbean companies and investors who are utilizing online platforms to raise securities</li> </ul>
<b>Regulation</b>	<ul style="list-style-type: none"> <li>• Facilitate the participation of global crowdfunding experts within existing Caribbean conference series regarding entrepreneurship and entrepreneurial finance.</li> <li>• Regulators and other stakeholders could choose to utilize a framework to help facilitate decision making in creating a regulatory environment that balances the needs of the 4 stakeholder groups 1) investors, 2) companies seeking funding, 3) regulators and 4) crowdfunding platforms companies.</li> </ul>	<ul style="list-style-type: none"> <li>• Provide advisory services to Caribbean policymakers and regulators at the country level to develop national legal and regulatory frameworks.</li> <li>• Organize a mission for stakeholders to meet with innovative tech solution providers in other regions that could be imported and utilized in the Caribbean</li> <li>• Consider implementing a “regulatory sandbox” model rule that could be adopted by Caribbean countries to enable regional financial innovation.</li> </ul>	<ul style="list-style-type: none"> <li>• Caribbean policymakers and regulators, with support from development organizations, should continue to develop laws and regulations to enable the usage of payment systems.</li> </ul>

## Appendix A. Crowdfunding Models

Crowdfunding may be classified into two broad categories, Nonfinancial Return and Financial Return.

### Nonfinancial Return Crowdfunding

Crowdfunding marketplaces for nonfinancial return campaigns allow individuals to contribute money to a cause or company without the expectation of monetary return. These business models are greatly reliant on trust between counterparties because they do not leverage credit data or investment prospectus. The largest crowdfunding campaigns are similar to e-commerce because they offer the purchase of a good or service prior to its large-scale production. There are currently three broad models for nonfinancial return crowdfunding (see Table A.1).

**Table A.1. The Main Models for Nonfinancial Return Crowdfunding**

<b>Business Model</b>	<b>Features</b>
Rewards Crowdfunding	Campaign backers provide funding for individuals, projects or companies in exchange for nonmonetary reward or products (e.g. T-shirt, coffee mug, food, etc).
Donation Crowdfunding	Philanthropic funders donate without expecting monetary compensation.
Presale Crowdfunding	Enables an entrepreneur to determine if there is a customer for their product prior to producing the item. If the fundraising goal is reached, the product can be produced (e.g. a video game producer could “presell” its video game to fans. If the campaign reaches its goal, there is enough interest from fans for the new game and the video game company creates it and distributes it.

Rewards crowdfunding allows project backers or donors to receive rewards or incentives tied to their level of contribution. These rewards may be tangible – a T-shirt, a signed copy of a script for a play, and so on. Although there is a moral obligation to provide the promised reward, typically there is no contractual obligation.

Donation crowdfunding is similar to the donation drives that charities and nonprofits have long used to raise funds through special events such as charity marathons and telethons. In a typical donation crowdfunding initiative, an individual or group solicits donations for a project, such as a creative endeavor, a community project, or a new product without the promise of financial return. For example, GoFundMe is a donation platform that has facilitated over \$1 billion raised by individuals, causes, and organizations, with an average funding raised per campaign of \$2,432, with a 7.9 percent fee and \$0.30 charge per transaction.<sup>73</sup>

**Box A.1. Donation Crowdfunding in the Caribbean**

In May 2015, an American teacher based in Saint Lucia launched a crowdfunding campaign to raise money for his pupils' school supplies. The campaign raised over \$3,900 from 53 individuals over the course of eight months.

*Source:*

<https://www.gofundme.com/u7eu8z9h>.

Presale crowdfunding is a model in which an organization or entrepreneur offers a product for sale before its large-scale production. This model allows an entrepreneur to test the market demand without committing the upfront marketing, production, and distribution costs required to commercialize a new product. Importantly, some of the most successful presale projects have used a campaign to solicit not only capital but also feedback from the contributors that were then incorporated into the product design and marketing. Recent campaigns, like the Pebble smartwatch, raised millions of dollars, thus funding the process of taking a prototype into production.<sup>74</sup> Entrepreneurs that run successful presales campaigns, even on a small scale, place themselves in a stronger position to negotiate with future investors.

**Box A.2. Industry Leaders: Presale and Reward Crowdfunding Platforms**

Kickstarter and Indiegogo are the two globally dominant platforms in both rewards-based and presale based crowdfunding. While Kickstarter has successfully raised more than \$2.1 billion for over 99,000 projects Indiegogo provides non-U.S. projects and entrepreneurs with easier access to its services. For example, in 2014 the Jamaican Youth Basketball Camp raised over \$34,244 from 352 people over the course of two months on Indiegogo to provide clothes and other food and experience-based rewards to contributors.

*Source:* <https://www.indiegogo.com/projects/second-annual-pmbl-treasure-beach-jamaican-youth-basketball-camp#/gallery>

## Financial Return Crowdfunding

Crowdfunding marketplaces for securities broker access to debt, equity, or a blend of products to either companies or consumers and rely on national financial service regulations. They offer a more efficient and cost-effective way for capital seekers to garner loans or investment.

While there are variations in business model and process, the core technology infrastructure required for the different types of crowdfunding are similar. Platforms need Internet access, application/hosting servers, payment gateways that include AML and KYC services, video creation, and communication tools so that campaign owners and potential contributors and investors can communicate both during and after the campaigns. Financial return crowdfunding requires some additional services that include, for online lending: credit ratings, credit scoring, credit modeling, lending servicing and backup loan servicing, accounting, reporting, and regulatory compliance services. Some additional services required for equity-based crowdfunding include: escrow services, investor qualification checks, background checks on companies and their management teams, and title/transfer services.

There are currently seven main types of securities platforms. Table A.2 provides an overview of the classification of financial tool, the business models used, key features of each type of crowdfunding, and the average potential capital raise based on experience from individual platforms.

### Box A.3. Is Microlending an Alternative Finance Loan?

Online microlending platforms such as Kiva are similar to crowdfunding, lending, and equity finance platforms because they expand the efficient access to capital for an underserved person or business. A key difference is that microlending platforms rely on local microfinance institutions (MFIs) as a partner for the sources and selection of borrowers and repayment support. Platforms like Kiva extend the collection of lending capital from nonaccredited investors, similar to peer-to-peer lending platforms.

Debt and equity crowdfunding are distinct from donation, rewards, and presale models in that demand-side actors or intermediaries issue shares, bonds, or debt instruments, while supply-side actors have the opportunity to profit from their investments.

**Table A.2. The Eight Types of Generally Available Financial Return Crowdfunding Platforms**

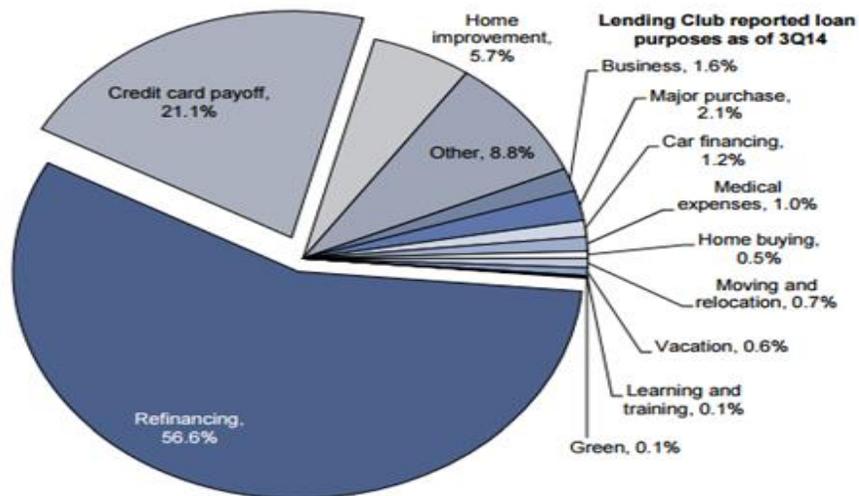
BUSINESS MODEL	FEATURES	FUNDING POTENTIAL (\$)
<b>Marketplace/P2P Consumer Lending</b>	A platform connects individuals or institutional funders to facilitate a loan to a consumer borrower. These are typically unsecured loans for personal needs.	2,000-35,000 <sup>a</sup>
<b>Balance Sheet Consumer Lending</b>	A platform provides a loan directly to a consumer borrower. These are typically unsecured loans for personal needs	3,500-30,000 <sup>b</sup>
<b>Marketplace/P2P Business Lending</b>	A platform connects individuals or institutional funders to facilitate a loan to a business borrower. Also known as P2B lending. The majority of these loans are secured by collateral.	25,000-500,000 <sup>c</sup>
<b>Balance Sheet Business Lending</b>	A platform provides a loan directly to a business borrower. Some of these loans are secured by collateral, others are unsecured.	50,000-500,000 <sup>d</sup>
<b>Real Estate Crowdfunding</b>	Individuals or institutional funder provide equity, senior debt, mezzanine debt or subordinated debt financing for real estate. These loans are usually secured by the real estate asset.	<2,000,000 per property <sup>e</sup>
<b>Invoice Trading / Invoice Finance/ Trade Finance</b>	Individuals or institutional investors purchase invoices or receivable notes from a business at a discount, or the entire lifecycle of the trade finance transaction can also be financed. These are usually secured loans.	1,000-1,000,000+ <sup>f</sup>
<b>Equity Crowdfunding</b>	Individual or institutional investors purchase equity issued by a company. These are usually either convertible notes, common equity, or preferred equity instruments.	50,000-10,000,000+ <sup>g</sup>
<b>Multi-Company Syndicates</b>	Some crowdfunding platforms (e.g. Syndicate Room in the UK and SeedInvest or Angellist in the US) provide the ability to invest a fixed amount into a “basket” of securities offerings on the platform to provide additional diversification protection for investors.	500,000 – 10,000,000

Sources: a. Prosper.com; b. Marcus, by Goldman Sachs; c. Funding Circle; d. Bond Street; e. Asset Avenue; f. Market Invoice; g. Crowdnetic, 2016.

### ***Lending Crowdfunding***

Debt-based crowdfunding involves individuals, banks, and institutional investors lending money either to other individuals (P2P) or to small businesses (P2B). In the vast majority of cases, the debt platforms screen the applicants, underwrite the loans, assign interest rates (sometimes based on an auction bidding of interest rates between willing lenders) and then create an auction market where investors are able to see available loans and loan parts of the total loan amount to the projects or businesses. P2P platforms fund everything from debt consolidation, to home improvement, to leases, to real estate, and even college tuition (see Figure 2.1).

**Figure A.1 . The Purpose of Debt-Based Loans Through Lending Club**



*Source:* LendingClub.com, Goldman Sachs Global Investment Research. Note: as of 3Q14.

Regarding peer-to-peer lending in the United States, credit data is used to produce FICO credit scoring, which in turn forms the basis for evaluation and risk assessment when providing unsecured loans.<sup>75</sup> This ensures the quality of the assets that are in turn bundled and sold as securities to institutional investors as low-risk securities. New online platforms are leveraging all available information on potential borrowers in order to assess their creditworthiness.

Large institutional groups also participate in these markets by purchasing loan portfolios or by taking a portion of a large number of loans (the structure of these arrangements is negotiated between the financial institution, professional advisors, and investors). These institutional investors account for 20 percent of total transactions and 80 percent of total lent capital.<sup>76</sup> One of the biggest challenges in the debt crowdfunding market is that the demand for loans now exceeds the supply of financiers. However, as the market evolves and matures and as investor awareness of debt-based crowdfunding grows and institutional involvement also increases, this imbalance may reduce. According to Charles Moldow of Foundation Capital,<sup>77</sup> this could become a \$1 trillion global market within 10 years,<sup>78</sup> an enormous figure that would still only represent one percent of the \$100 trillion global debt market.<sup>79</sup>

Peer-to-peer lending is much more nascent in emerging markets, but lending platforms are increasingly being launched in the developing world.

In Mexico, Kubo.Financiero launched in July 2015 as the first P2P platform licensed by the Mexican Banking Regulator to provide P2P services. Kubo acts as an online platform for investors and borrowers to meet and transact business. In some developing countries, this model of acting as a technology platform only has enabled online lenders to not be seen as acting as a bank (not

handling cash or holding deposits), which has enabled them to avoid meeting significant regulatory requirements, including holding significant cash reserves. As of June 2016, they have delivered 2200 loans totaling Mex\$46 million (about \$2.56 million).

In Chile, Cumplo is the largest online P2B lender in Latin America. While this company began as a P2P lender, they soon transitioned to P2B and specifically to Accounts Receivable financing as a lending product that was in great demand, and is traditionally an expensive way for SMEs to gain access to working capital. This type of lending model may be worth exploring for entrepreneurs and countries seeking to start leveraging P2B lending as it is asset-backed. Moreover, since the customer is a business already with customers and sales, it may provide a starting point for the business to raise capital from its customers via such loans.

Companies and individuals that use debt-based crowdfunding report that the screening and underwriting process is faster than traditional loan underwriting. This may be particularly beneficial to firms that otherwise would have to turn to expensive receivables discounting for the fastest approval when seeking capital. In the Caribbean, where many SMEs need to finance their working capital on credit in order to stay in business, creating the ability to gain access to capital in a timely fashion and at potentially more affordable rates than traditional sources (for example, gray market money lenders or banks) could be beneficial to those businesses.

### ***Equity Crowdfunding***

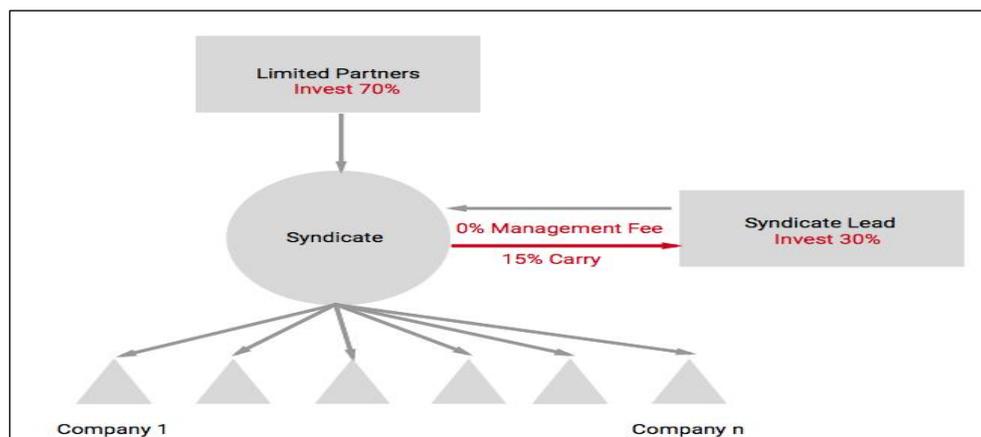
Equity crowdfunding mechanisms vary within different regulatory frameworks although, normally, it involves the sale of a securities instrument (stock) in a company through a regulated, online platform. Equity crowdfund investing can raise millions of dollars rapidly from a distributed base of investors to finance individual companies or larger organizations. Unlike donation or rewards crowdfunding, the purchaser of the security will expect some kind of financial gain from the transaction.

A number of angel networks, venture capital (VC) firms, private equity firms, and hedge funds are beginning to experiment with crowdfunding. For entrepreneurs and small enterprises, equity crowdfunding platforms lower the barriers required for them to offer equity shares in their companies and thereby enhances their access to capital. Bringing the process of raising funds online increases the pool of investors, encourages the use of common platforms and standardized disclosures, speeds the funding lifecycle, and creates shared repositories of information that investors or entrepreneurs access at any time.

Currently, there are four models for equity-based crowdfunding investment that have gained traction. While not every platform offers all models, most offer more than one option for how to invest. It is expected that, over time, the market may create additional models to meet investor and issuer needs.

1. Individual Direct Investment: This model provides an opportunity for investors to make direct equity investments in a company via a crowdfunding platform. This means that each investor is listed individually on the capitalization table of the company and has all the rights and responsibilities that come with direct stock ownership. DreamakerEquity (Thailand based), OfferBoard (U.S. based) and Crowdcube (U.K. based) are three examples of platforms that provide this as one of their methods of investing in companies on their platforms.
2. Investment in a single company via a Special Purpose Vehicle (SPV): This model simplifies the capitalization table for the company. When using this structure, a company is able to collect small investors into an SPV that has one named shareholder, which may help companies raise follow-on funds because it has a simpler capitalization table, and requires fewer decision makers to participate in major company decisions. That named shareholder represents the interests the investors in the SPV. Sometimes this SPV lead is the crowdfunding platform, and sometimes it is a syndicate leader that could be an individual or fund. The value of the SPV to the investor is that it provides access to deals that may not normally be available to small investors. SeedInvest provides single company SPVs as an option, and FundersClub is an example of a crowdfunding platform that focuses on providing SPV access to start-ups for small investors in single companies. Investors may or may not be charged fees (about 0-2 percent) and, or carried interest (about 5-20 percent) on this SPV.
3. Single-Company Syndicates: In this model, an investment syndicate is formed by a lead investor who provides pricing and due diligence for other investors. In exchange for this, the syndicate leader charges carried interest (typically about 10-20 percent) on the syndicate if the investment has a return. AngelList and Crowdfunder are examples of equity crowdfunding platforms that offer this model of investing.
4. Multi-company Syndicate (mini-funds): This model of equity crowdfunding creates an opportunity for investors to diversify their risk across a number of company investments (see Figure 2.3). Some of these multicompany syndicates are set up to focus on a particular industry, sector, or theme. (Syndicate Room in the UK and SeedInvest in the US offer these types of investment opportunities) Others are created to invest in every company that raises money on the crowdfunding platform. And still others can create specific criteria to make multiple investments in start-ups and SMEs via a single investment on a single platform. These syndicates may be administered by a platform or may be administered by a syndicate leader (individual or fund).

**Figure A.1. A Multi-company Syndicate Model of Equity Crowdfunding**



Source: AngelList: A Zero Capital, Infinite Carry Venture Capital Fund, <https://medium.com/@hackevents/angellist-a-zero-capital-infinite-carry-venture-capital-fund-d37fee8b6328> .

In most cases, equity crowdfunding platforms earn revenue either from success-based fees for raising capital (for example, about 5-8 percent) or charge “listing fees” that may be flat one-time fees or monthly recurring fees for access to the technology platform’s services.

### **The Flow of Capital in Equity and Lending Crowdfunding**

While the details of the capital flows in equity and debt crowdfunding models may vary, the mechanics are similar to each other, and similar to traditional transactions of this type. In an equity scenario, a company lists its offering (the amount it is seeking to raise and the percentage of equity offered) on a registered crowdfunding portal after it meets all requirements (issuer verification and background check, document diligence check, use of proceeds, and so on). In a debt or bond offering, the procedure is the same except that the company’s offer would comprise the amount it is seeking to raise and the interest rate offered. In both cases the crowd makes varying financial commitments to invest (notice sent to crowdfunding portal) and money is transferred to an escrow agent. When 100 percent of the funding target is reached, money is transferred from the escrow agent to the company. In the equity scenario, the company issues shares to investors for their portion of the equity purchased and, upon exit (which may occur as with any company, for example, through a trade sale, acquisition, initial public offering (IPO) or company liquidation), shareholders receive their equity percentage of the value of the company.

In the debt or bond scenario, the company issues notes to investors for their portion of the loan serviced. When the debt or bond is to be repaid, a company makes regular principal and interest payments to the escrow agent. When funds are received, the portal receives notice and then instructs the escrow agent to distribute the principal and interest payments to loan providers.

The liability of the portal and/or issuer depends on the local regulations created in each jurisdiction. It is recommended that portals have the ability to significantly limit their liability if they follow best practice for due diligence that ensures the completeness and accuracy of the information provided by the issuer. This is usually the case for traditional broker-dealers in traditional private or public transactions, and should be the same for crowdfunded transactions. By doing so, actors increase the willingness for legitimate equity crowdfunding platforms to conduct transactions.

### Risks in Equity Crowdfunding

**Crowdfunding creates risks for investors:** As a new type of investment vehicle that is focused on early to midstage SMEs, the risks are significantly greater than those for traditional investment types. It is important for potential investors to understand that the majority of early stage investments will lose money and the majority of early to midstage companies will go out of business. Potential investors are advised to consult with investment professionals and conduct their own research in all cases. Generally, it is advised that investors take a portfolio approach to determining their investment strategies and consider investing only a small portion of their investible capital in crowdfunding. Sustained investor education regarding these risks is very important. Specifically, the education of investors that investing in a start-up or SME is not a “get rich quick” investment. In most cases, in more developed markets, for a company to have a meaningful exit (e.g. Initial Public Offering or trade sale) it takes 5-10 years of company growth.

**SMEs are subject to risks if they utilize crowdfunding.** There is no risk-free way for companies of any size to raise capital and this includes SMEs that are considering using crowdfunding to do so. Raising money for a business is difficult. Raising money via crowdfunding is not “easy” but it is believed by its advocates to be a more efficient way to do a difficult thing. Some of the key risks that SMEs should be aware of in considering crowdfunding include:

1. Significant time required to prepare for the crowdfunding raise and to execute the campaign during the active fundraising round. The time-consuming activities include building online and offline social networks via engagement on social platforms, creating offering documents and financials, engaging in public relations activities to raise visibility of the business and its founders as “experts”, soft circling capital from early/initial investors and working with the platform to create, launch and follow-through on all aspects of the campaign. SMEs should plan for a 6-month preparation period to get ready for their 2-month campaign execution. SMEs should also understand that time spent on these activities may divert attention from important daily execution of the existing business. SMEs will need to consider how they will be able to both raise capital and keep the business going during this process.
2. Reputational risk if the SME fails to raise the capital during its campaign, or fails after raising the money, having accepted investor capital and deployed it. In cultures where failure is not

tolerated, this is a real risk to be assessed. It is another reason that the preparation period is so important.

3. The risk of opening an SME's financials and business practices to the outside world. This risk can be more keenly felt in cultures with low trust. There may be a visceral response that this risk is too great to make it worthwhile to conduct a crowdfunding campaign. In some cases, that may be true, and in other cases, if you can align the community with an SME and they have shared goals for success since the community has invested in the SME, it may serve as a competitive advantage.
4. SMEs can face communication risk with their investors if they have not set expectations properly at the beginning. For all forms of crowdfunding, communication with your contributors or investors is important so they understand how the business is proceeding and when they will receive their prepurchased items/rewards (in the case of nonfinancial return crowdfunding) or how their investment is performing (in the case of financial return crowdfunding). This communication can be very time consuming if the SME does not let investors/contributors know from the outset, how communication will take place, in an efficient manner so that the SME can focus on creating/building/growing and creating a return on the investment.

**Risks also exist for governments and financial regulators.** While best practice and frameworks that can be helpful in creating balanced regulation for crowdfunding are emerging, there are no guarantees and experience in this new asset class is still limited. As of the writing of this report, useful comparative data is only available in a small number of developed markets (for example, the United Kingdom and the United States). The crowdfunding markets in developing countries (for example, Malaysia and Thailand) are still too nascent for there to be data that can be analyzed with any definitive or predictive value. This increases the challenges faced by policy makers and regulators in enabling crowdfunding in a developing context. While instances of fraud have been low globally, given the relative youth of the industry, it remains to be seen if fraud will increase significantly as utilization grows. If fraud does increase, it is critical that regulators have the tools and data at their disposal to take corrective and decisive action to protect investors, issuers, and this new market.

**Other stakeholders in the Caribbean also face risks as crowdfunding grows.** How can entrepreneurs be trained at scale to use these new tools? If there are failures with some early campaigns, could this doom crowdfunding in an entire country? How can communities of investors be trained to understand this new and high risk type of investing? These questions highlight the need for crowdfunding associations of platforms and stakeholders to play a role in building understanding, transparency, and regionally appropriate best practice in crowdfunding.

## **Appendix B. Interview Methodology and Survey Participants**

This preliminary assessment of crowdfunding's potential in the Caribbean involved a wide range of conversations with key entrepreneurial/SME ecosystem stakeholders in four countries in the region: Barbados, Jamaica, Saint Lucia, and Trinidad and Tobago. Over the course of the two-week mission, the team met with over 70 individuals. The team met with the following number of individuals by country: 8 in Barbados, 32 in Jamaica, 25 in Saint Lucia, and 12 in Trinidad and Tobago. By engaging in structured conversations across the ecosystem, the mission team was able to gain insights directly from participants in the field. These interviews were augmented by significant insights and expertise from World Bank staff in the region and additional desk research.

As is noted several times in the report, given the preliminary nature of this work, there are open questions where further research may be helpful in possibly deepening understanding and supporting potential future actions. Organizations or institutions may choose to study the specifics of these issues within their own context.

Engaging these individuals further in this assessment may increase the possibility of collaboration around a crowdfunding initiative. These dialogues enabled the team to gain deeper insights into the supply and demand factors that may influence development of crowdfunding in the region. Examples of the types of meetings that were requested during this mission included:

1. Local social media expert and/or someone with knowledge of local Internet usage
2. Specialist in domestic credit and SME funding trends. Someone who can speak to how creditworthiness is determined, background checks, and due diligence issues. This includes individuals from local regional banks, particularly those focused on SME lending and local banking regulators.
3. Someone with close ties to the start-up community. This could be someone from local resources or multilateral organizations with local offices dedicated to SME capacity building.
4. Someone who runs a local incubator/accelerator that can speak about the current clients they serve, challenges, and opportunities.
5. A regulator preferably from the securities administration. Someone who can talk about the current regulatory environment, concerns, anti-money laundering issues, and so on.
6. A legislator either from the SME space or is an advocate of SMEs for innovation and job creation.
7. Someone who is focused on how public education provides knowledge and skills regarding the financial markets (could be a university professor, regulator, local media contact).

8. An expert on local country customs and culture that inform attitudes regarding risk taking, collective endeavors (for example, collaboration, information sharing), and what motivates performance.
9. Any crowdfunding platforms or teams that have emerged or are under construction.
10. Key angels or other “investors” that are active in the local context (including to the extent it may exist, the start-up community). Would want to explore the disclosures most necessary for them to make investments into SMEs.
11. Any lawyers that have a focus on SMEs, understand the regulation, hurdles, incorporation/insolvency processes, and disclosures.
12. A traditional SME player that would represent an underserved type of traditional SME, to learn about their specific challenges and opportunities.
13. Government officials from the Ministry of Finance, the Ministry of Economy and Offices of Science and Technology, Ministry of Commerce/Development in the respective branches of government.

The research team would like to thank all of the individuals and organizations that so generously gave of their time and expertise in this research. A list of organizations that participated is shown below:

<b>Barbados</b>			
<b>Title</b>	<b>First Name</b>	<b>Last Name</b>	<b>Organization</b>
Mr.	Gabriel	Abed	Bitt
Mr.	Anthony	Bradshaw	Caribbean Export Development Agency
Mr.	Kirk	Brown	Caribbean Export Development Agency
Mr.	Shannon	Carke	MediRevu
Ms.	Ann Marie	Chandler	Caribbean Development Bank, Social Sector Division
Mr.	Chesterfield	Coppin	Ministry of Commerce, Consumer Affairs and Business Development
Mr.	Oliver	Gale	Bitt
Ms.	Lisa	Harding	Caribbean Development Bank
Mr.	Mark	Ifill	Invest Barbados
Mr.	Omark	Kennedy	AnimeCon
Ms.	Sophia	Lewis	Invest Barbados
Mr.	Christopher	McNair	Caribbean Export Development Agency
Dr.	Keith	Nurse	UWI WTO Chair, University of the West Indies
Mr.	Adrian	Reid	Visionfunder

<b>Jamaica</b>			
<b>Title</b>	<b>First Name</b>	<b>Last Name</b>	<b>Organization</b>
Ms.	Kamila	Bennett	
Mrs.	Marcia	Forbes	Phase 3 Productions
Mrs.	Sandra	Glasgow	First Angels
Mr.	Rajeev	Gopal	IFC
Prof.	Rosalea	Hamilton	University of Technology, Jamaica, MSME Alliance
Ms.	Marcia	Henry	Scientific Research Council, Jamaica (SRC)
Ms.	Akindele	Hickling	Ministry of Industry, Investment & Commerce (Jamaica)
Mr.	Earl	Jarrett	National Development Bank
Mrs.	Lisa	Lake	Branson Centre
Ms.	Kathy	Lalazarian	CMU Jamaica
Hon.	Douglas	Leys	Leysmith Lawyers
Ms.	Michele	Marius	JAMPRO
Ms.	Nadine	Matthews	National Commercial Bank
Mr.	Cecil	McCain	Ministry of Science, Technology Energy and Mining
Mr.	Desmond	Mitchell	Start-up Jamaica Limited
Ms.	Delaine	Morgan	JAMPRO
Mr.	Floyd	Morris	Centre for Disabilities Studies - UWI Mona
Ms.	Wahkeen	Murray	Ministry of Science, Technology, Energy and Mining
Ms.	Dionne	Palmer	University of Technology, Technology Innovation Centre
Hon.	Phillip	Paulwell	Ministry of Science Technology Energy and Mining
Ms.	Marlene	Porter	JAMPRO
Mrs.	Hilary	Reid	Myers Fletcher & Gordon
Mrs.	Audrey	Richards	Development Bank of Jamaica
Ms.	Ingrid	Riley	Connectimass
Dr.	Cliff	Riley	Scientific Research Council, Jamaica (SRC)
Mr.	Wayne	Robertson	Ministry of Industry, Investment and Commerce
Hon.	Julian	Robinson	Ministry of Science, Technology, Energy and Mining (Jamaica)
Mrs.	Mariame	Robinson	Portland Private Equity
Mrs.	Claudette	Tracey	Development Bank of Jamaica
Mr.	Douglas	Webster	Ministry of Industry , Investment and Commerce
<b>St. Lucia</b>			
<b>Title</b>	<b>First Name</b>	<b>Last Name</b>	<b>Organization</b>
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Mr.	Jean	Francois Sonson	St. Lucia Development Bank
Dr.	Alison	Gajadhar	Ministry of Commerce
Mr.	Anthony	Harlow	St. Lucia Development Bank; Chief Tech Officer

Mr.	David	Jordan	Ministry of External Affairs, International Trade & Investment
Mr.	Peter	Lorde	Ministry of Commerce, Business Development, Investment and Consumer Affairs
Mr.	Sygnus	Matthew	St. Lucia Development Bank; Relationship Specialist
Mr.	Ian	Mitchell	St Lucia ICT Association (SLICTA)
Mr.	Rankin	Morgan	123 Digital
Ms.	Francillia	Solomon	National Development Corporation/Invest St. Lucia
Dr.	Lyndell	St. Ville	Datashore

#### Trinidad and Tobago

Title	First Name	Last Name	Organization
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Mr.	Shyamal	Chandradathsingh	InvesTT/eTeck
Hon.	Winston	Dookeran	Ministry of Finance
Dr.	Ronald	Dubrasingh	Microsoft Innovation Centre / Caribbean Industrial Research Institute (CARIRI)/Mobile Lab
Mr.	Michael	Gordon	Enterprise Development Division Ministry of Labor and SME Development
Mr.	Jerry	Hospadales	Ministry of Finance
Mr.	Kirk	Ifill	IFC
Ms.	Catherine	Kumar	Trinidad & Tobago Chamber of Industry & Commerce
Ms.	Lystra	Lucillio	Trinidad and Tobago Securities and Exchange Commission
Ms.	Tamara	Nangoo	InvesTT/eTeck
Ms.	Melanie	Phillips	Ministry of Finance
Mr.	Wayne	Punnette	Ministry of Trade and Industry
Ms.	Susan	Sing	Ministry of Trade
Mr.	Keiron	Swift	Ministry of Planning and Sustainable Development
Hon.	B.	Tewari	Ministry of Planning & the Economy

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Saint Lucia Trade Promotion and Export Group (TIPA)	University of West Indies - National Entrepreneurial Development Co.

## Notes

- <sup>1</sup> <http://www.worldbank.org/en/events/2016/08/05/crowdfunding-for-caribbean-entrepreneurs-free-online-course>.
- <sup>2</sup> Internet Word Stats, <http://www.internetworldstats.com/stats11.htm>.
- <sup>3</sup> “Latin America and the Caribbean: Coping with Challenging Times”, <http://www.imf.org/external/pubs/ft/reo/2014/whd/eng/pdf/wreo1014.pdf>. This compares with GDP growth estimates of 2.1 percent in 2014 and 2.5 percent in 2015 for small Pacific island countries.
- <sup>4</sup> *infoDev* defines a growth-oriented entrepreneur (GO) as an entrepreneur/firm that is pursuing growth beyond a level where he/she can support the livelihood of his/her household. In the entrepreneurship literature, such entrepreneurs are often referred to as “opportunity entrepreneurs” as opposed to “necessity entrepreneurs.”
- <sup>5</sup> Compete Caribbean, <http://competecaribbean.org/category/micro-level-data/>.
- <sup>6</sup> [www.homestrings.com](http://www.homestrings.com).
- <sup>7</sup> <https://www.gov.uk/government/consultations/isa-qualifying-investments-consultation-on-whether-to-include-investment-based-crowdfunding/isa-qualifying-investments-consultation-on-whether-to-include-investment-based-crowdfunding>.
- <sup>8</sup> <http://femaleentrepreneurs.institute/women-entrepreneurs-crowdfunding-research/>.
- <sup>9</sup> For instance, Crowdnetic aggregates, analyzes, and reports data and trends via Thomson Reuters and CNBC (<http://www.crowdnetic.com>).
- <sup>10</sup> <https://www.kabbage.com/how-it-works/>.
- <sup>11</sup> <https://onepercentclub.com/en/#!/pages/cheetah>.
- <sup>12</sup> The regularity of which persons contacted by a financing campaign contribute or invest.
- <sup>13</sup> The tendency of an image, video, or piece of information to be circulated rapidly and widely from one Internet user to another; the quality or fact of being viral.
- <sup>14</sup> <http://www.edelman.com/insights/intellectual-property/2015-edelman-trust-barometer/trust-and-innovation-edelman-trust-barometer/>.
- <sup>15</sup> <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>.
- <sup>16</sup> <http://www.tradingeconomics.com/barbados/unemployment-rate>.
- <sup>17</sup> <http://www.barbadosday.bb/2013/05/13/youth-unemployment-issues/>.
- <sup>18</sup> <http://www.egfl.bb/index.php?categoryid=4>.
- <sup>19</sup> <http://www.youthbusiness.bb/YoungEntrepreneurs/>.
- <sup>20</sup> <http://www.scotiabank.com/tt/en/0,,546,00.html>.
- <sup>21</sup> <http://www.barbadosadvocate.com/newsitem.asp?NewsID=27094>.
- <sup>22</sup> <http://www.internetworldstats.com/car/bb.htm>.
- <sup>23</sup> <https://www.cia.gov/library/publications/the-world-factbook/>.
- <sup>24</sup> Economist Intelligence Unit; Barbados Report, <http://country.eiu.com/barbados>. Accessed June 3, 2015.
- <sup>25</sup> <http://gemconsortium.org/country-profile/75>.
- <sup>26</sup> <http://data.worldbank.org/indicator/SL.UEM.1524.ZS>.
- <sup>27</sup> Jamaica Overview, World Bank, March 30, 2015, <http://www.worldbank.org/en/country/jamaica/overview>.
- <sup>28</sup> <https://www.infodev.org/press-releases/cmip-launch>.
- <sup>29</sup> Planning Institute of Jamaica; *Economic and Social Survey, 2014*.
- <sup>30</sup> Jamaica Business Development Corporation, *Firm Survey, 2014*.
- <sup>31</sup> Economist Intelligence Unit, Jamaica Report, accessed June 3, 2015.
- <sup>32</sup> <http://www.jamaicaobserver.com/news/Jamaica-gets-US-help-in-islandwide-Internet->

coverage\_18274628.

<sup>33</sup> <http://data.worldbank.org/country/trinidad-and-tobago>.

<sup>34</sup> <http://www.doingbusiness.org/data/exploreeconomies/trinidad-and-tobago>.

<sup>35</sup> <http://www.tradingeconomics.com/trinidad-and-tobago/unemployment-rate>.

<sup>36</sup> [http://www.cpahq.org/cpahq/cpadocs/Wade-](http://www.cpahq.org/cpahq/cpadocs/Wade-Paper%20on%20Tackling%20Youth%20Unemployment_58th%20CPC.pdf)

[Paper%20on%20Tackling%20Youth%20Unemployment\\_58th%20CPC.pdf](http://www.cpahq.org/cpahq/cpadocs/Wade-Paper%20on%20Tackling%20Youth%20Unemployment_58th%20CPC.pdf).

<sup>37</sup> The Digital Divide Survey, Trinidad and Tobago, 2013,

[http://tatt.org.tt/DesktopModules/Bring2mind/DMX/Download.aspx?Command=Core\\_Download&EntryId=340&PortalId=0&TabId=222](http://tatt.org.tt/DesktopModules/Bring2mind/DMX/Download.aspx?Command=Core_Download&EntryId=340&PortalId=0&TabId=222).

<sup>38</sup> [https://www.kickstarter.com/projects/258315988/doubles-with-slight-pepper?ref=nav\\_search](https://www.kickstarter.com/projects/258315988/doubles-with-slight-pepper?ref=nav_search).

<sup>39</sup> [www.kickstarter.com/help/stats](http://www.kickstarter.com/help/stats).

<sup>40</sup> <http://www.forbes.com/sites/chancebarnett/2013/09/09/donation-based-crowdfunding-sites-kickstarter-vs-indiegogo/>.

<sup>41</sup> Saint Lucia Central Strategic Office, <http://204.188.173.139:9090/stats/>.

<sup>42</sup> <http://www.ict-pulse.com/2013/06/snapshot-2013-update-state-telecoms-caribbean/>.

<sup>43</sup> <http://www.ict-pulse.com/2013/06/snapshot-2013-update-state-telecoms-caribbean/>.

<sup>44</sup> <http://www.stlucianewsonline.com/1st-national-bank-launches-mobile-banking-app/>.

<sup>45</sup> [http://www.gsma.com/mobilefordevelopment/wp-](http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2012/06/110109halfunbanked_0_4.pdf)

[content/uploads/2012/06/110109halfunbanked\\_0\\_4.pdf](http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2012/06/110109halfunbanked_0_4.pdf).

<sup>46</sup> <https://www.kickstarter.com/projects/everydayheroes/everyday-heroes-a-fresh-look-at-caribbean-men/description>.

<sup>47</sup> <http://www.un.org/en/development/desa/population/migration/index.shtml>.

<sup>48</sup> <http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>.

<sup>49</sup> Basel II is the international framework for the assessment of international banks' capital adequacy. Basel III provides a regulatory framework targeting governance and risk management.

<sup>50</sup> mPesa is the mobile money solution initially launched in Kenya by Safaricom (Vodafone), that now operates in Kenya and Tanzania, South Africa, Afghanistan, and India. The service allows users to deposit money into an account stored on their mobile phone and then to send money using PIN-secured SMS text messages. It functions as a type of virtual currency.

<sup>51</sup> Bitt is the first online asset exchange in the Caribbean for the exchange of virtual currency (e.g. Bitcoin) between users as well as the exchange of virtual currency for fiat currency.

<sup>52</sup> <http://www.ict-pulse.com/2013/06/snapshot-2013-update-state-telecoms-caribbean/>.

<sup>53</sup> [http://www.jamaicaobserver.com/business/Digicel-Jamaica-s-smartphone-users-surpass-1-million\\_18201974](http://www.jamaicaobserver.com/business/Digicel-Jamaica-s-smartphone-users-surpass-1-million_18201974).

<sup>54</sup> Jamaica Financial Services Commission, Guidelines for Exempt Distributions.

<sup>55</sup> Jamaica Financial Services Commission, Guidelines for Exempt Distributions.

<sup>56</sup> Trinidad and Tobago Securities Act Chapter 83:02.

<sup>57</sup> <http://ttsec.org.tt/wp-content/uploads/SEC-13th-Quarterly-Newsletter-Final-low-res.pdf>.

<sup>58</sup> Barbados Securities Act.

<sup>59</sup> <http://www.fsc.gov.bb/index.php/securities/fee-schedule>.

<sup>60</sup> <http://www.fsc.gov.bb/attachments/article/121/Consultation%20Paper%20-%20Private%20Placement%20Regime.pdf>.

<sup>61</sup> <http://www.bse.com.bb/about-market/about-market>.

<sup>62</sup> <http://venturecapitaljamaica.com/about-us>.

<sup>63</sup> Internet Telecommunication Union, 2014.

<sup>64</sup> <http://www.forbes.com/sites/rodebrahimi/2013/05/09/how-to-build-a-trusted-online-financial-services-company/#7b5b2e5f15b8>.

<sup>65</sup> The Cheetah Fund was a €400,000 fund that partnered with the 1% Club Netherlands crowdfunding platform to support African pioneers with seed money to kick-start or boost their world changing projects. If pioneers manage to crowdfund at least 30 percent of their target amount via 1% Club within 30 days, the Cheetah Fund then grants them the remaining amount.

<sup>66</sup> Statista, 2012.

<sup>67</sup> <https://angel.co/syndicates>.

<sup>68</sup> The Balanced Stakeholder Framework™ was created by Crowdfund Capital Advisors for regulators, governments and ecosystem stakeholders to use in development of crowdfunding regulation and policy.

<sup>69</sup> Securities Commission of Malaysia.

<sup>70</sup> <http://www.investopedia.com/articles/investing/011916/profits-paradise-top-4-economies-caribbean.asp>.

<sup>71</sup> <http://www.telegraph.co.uk/investing/shares/can-ordinary-investors-gain-from-the-tax-breaks-for-the-rich/>.

<sup>72</sup> <http://www.coindesk.com/why-bitcoins-remittance-disruption-slowed-to-a-crawl/>.

<sup>73</sup> <https://www.gofundme.com/questions/>.

<sup>74</sup> <https://www.kickstarter.com/projects/597507018/pebble-e-paper-watch-for-iphone-and-android>.

<sup>75</sup> <http://www.fico.com/en/>.

<sup>76</sup> Altfi Data. [http://www.altfi.com/article/1276\\_what\\_are\\_the\\_institutions\\_up\\_to\\_now](http://www.altfi.com/article/1276_what_are_the_institutions_up_to_now).

<sup>77</sup> Foundation Capital is a large and successful Silicon Valley venture capital fund that has invested in Lending Club which had its IPO in 2015 and is the largest peer-to-peer lender in the United States. <http://www.foundationcapital.com>.

<sup>78</sup> <http://www.lendit.co/assets/presentations/Charles-Moldow-Foundation-Capital-LendIt-2014.pdf>.

<sup>79</sup> <http://www.bloomberg.com/news/articles/2014-03-09/global-debt-exceeds-100-trillion-as-governments-binge-bis-says>.

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